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PROFIT SHARING IN A DEVELOPING ECONOMY
THE EGYPTIAN CASE

A Thesis Submitted for the Degree
of Doctor of Philosophy

by

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February 1982

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by Mostafa Mostafa Kamel, 1982

Summary

The objective of the research is to evaluate the degree of success in applying profit sharing as a form of participation in developing command economies, Egypt being the model.

Participation is spoken of as a new management ideology to overcome workers' alienation resulting from the introduction of the factory system - and to guarantee their support for its objectives. There are many studies of participation in Western countries whose overriding concern is with the success or failure of application, a subject which is seen to be debatable. Yet in command economies, where the application is compulsory, studies are very rare. This research may help to fill some of the void. Furthermore, the difference between the voluntary application of profit sharing in Western societies and its compulsory application in command economies is of a significance which cannot be too emphasised.

Investigation has been performed by questionnaire and through personal interviews with employees from the Egyptian industrial public sector. This information is analysed against a background of the Egyptian environment in order better to understand employees' satisfaction with such schemes. The analysis attempts to highlight existing problems and to answer the question of how to improve the scheme.

The research concludes that participation cannot be achieved by law, being subject to culture, tradition, habits, norms and skills of members. Compulsory application of profit sharing has led to many problems which affect its success. The application of such schemes in developing countries which does not satisfy the basic needs of individuals cannot guarantee its effectiveness. Workers behave individually as well as collectively, therefore personal factors such as their individual position in the hierarchy and market place are effective in determining their attitudes. Awareness of profit sharing among shopfloor workers seems to be limited to the money they get, that is the simple cash transaction. Little has been achieved in terms of the wider political goals of raising worker identity with the enterprise or state.

The research recommends several related procedures be adopted. These are essential elements to the achievement of a political awareness among participants in such schemes.

Key words: Profit Sharing; Participation; Egypt; Command Economy; Employees' Attitudes; Industrial Democracy.

Acknowledgements

My thanks are to God Almighty for fulfilling my hopes and ambitions, and guiding me in all I do.

In regard to the preparation and completion of this dissertation, I am grateful for the generous help and assistance of a number of individuals and organisations.

I would like to express my immense debt first and foremost, to my supervisor Professor Raymond Loveridge, Head of the Manpower Resources and Legal Studies Subject Group for his unflagging support, encouragement, and advice on many points of detail in this dissertation, and for his constructive criticism in all its stages. As well as guiding me academically, Loveridge's moral support was invaluable in urging me to persevere until the dissertation was completed.

I would also like to thank the members of the Management Centre, particularly Mr Yeomans, Mr Silver and Mrs Perks, who so willingly gave me their time and technical advice.

The Egyptian Central Agency for Public Mobilisation and Statistics, who kindly permitted me to carry out the field study in Egypt even under the supervision of a foreign university and in spite of the sensitivity of the subject. Also I must thank the Ministry of Industry, and specially the Deputy-Minister, whose intervention expedited and facilitated the field study. Finally I am grateful to the Egyptian employees of the Industrial Public Sector - with particular thanks to the thirteen companies which contributed to this research - who have willingly given up their valuable time allowing me to interview them in connection with this study.

My gratitude is also extended to my colleagues on the staff of the Faculty of Commerce, Cairo University, for consenting to my being on study-leave, and for their moral support; to my family who have supported me wholeheartedly and provided me with stimulus and encouragement.

A final word of thanks to Mrs. J. Davis, the typist of this thesis, for her cheerful tolerance and to the many others who have helped me in one way or another.

This work is dedicated to my small family: parents, wife, and children who have faith in me and without their sacrifice, co-operation and support this work would not have been possible.

We Know More And More
From Day To Day
And Thus Is Human Life Enriched

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CHAPTER ONE

Introduction

The aim of this thesis is to analyse the possibility of applying profit sharing schemes as a means to achieving worker participation in command economies in developing countries, taking Egypt as a model. The research aims, through the survey and analysis, to suggest a number of conclusions and recommendations concerning the application of such schemes in developing countries with command economies.

Since the scheme, like other organisational techniques and innovations, was introduced in Western industrial countries, the research begins by surveying the circumstances leading to such applications. Management in industrial societies faced and are still facing problems such as how to guarantee workers' support and co-operation in order to achieve their organisation's objectives. What further complicates the problem of control is the increase in size of organisations, the movement in ownership toward multi-national corporations, the increased adoption of advanced technology and increasingly severe competition in the product market. The ever growing force of trade unions limits management control over employees, and gains increasing influence within management decision making.

Often participation has been seen as a remedy for these problems. By involving workers, employers seek to overcome feelings of alienation among junior employees and thus to increase their loyalty to organisational managers. Even so, there is a debate around the forms and objectives of such schemes. Many contend that participation can and does increase satisfaction, loyalty and commitment, trust, improves

supervision and authority relationships, and creates a common purpose, all of which will increase efficiency and productivity. Furthermore, it is said to legitimate management authority over workers and to provide a system of control which is based on a moral involvement rather than a calculative one.

Participation can involve varying numbers and types of organisational membership. There is no constant objective to be found across all schemes and they vary in the what, how and when of participation in decision making. Profit sharing is just one of these forms of participation. It has a long history in Western countries, and there is now a revived interest in it. This is particularly so after World War Two especially in the USA and also a number of Western societies with a socialist tendency in the labour movement. It must be noted that application of profit sharing is voluntary in pluralistic societies, reached by agreement between all parties concerned and with only a limited government intervention. The success of these schemes is still seen to be debatable by academics and other researchers. Yet some developing countries with command economies who are still new to industrialisation, have tried to apply such schemes, even by force.

Developing countries face a number of social, economic and political problems to which industrialisation is seen as both cause and solution. They aim to create a disciplined industrial labour force, to ensure productivity and efficiency and thus to increase national income, raise the standard of living and create new jobs. The government in developing countries has an active and determining role in the industrialisation process. Most organisations are public sector and the government regulates, even imposes, work and labour market relationships between workers, management, and labour organisations, all of which must

co-operate in achieving the government's 'objectives'. The Yugoslavian Government, for example, imposed the concept of profit sharing (accompanied by workers' self-management and social ownership) on the enterprise. Studies carried out assess this exercise as moderately satisfactory in achieving the aims of the elite: yet as I have demonstrated in the course of this study, the application of the scheme was based on a number of assumptions which might strike one as being unrealistic. Studies are not available of other developing countries who have applied participative schemes.

This shortage may be due to the difficulties confronting a researcher in obtaining facts and material, as is mentioned in the following study. However, due to a number of contacts and a great deal of perseverance, I was able to surmount most of these difficulties and perform the following research which thus helps to fill the void.

The present research will try to evaluate how far such participative schemes can succeed within other developing countries with command economies. As the study below reveals, the difference between voluntary application of the scheme in Western countries, and applying it in the command economy of developing countries is of a significance which cannot be too much emphasised. One might expect that the compulsory application may have some problems and drawbacks in the course of implementation. This study attempts an assessment of whether the demand for participation in Egypt has grown as a result of the learning experience. It will survey the effectiveness of the application of profit sharing upon Egyptian employees' satisfaction, loyalty and commitment to their work and organisation. It will attempt to clarify whether the formal participation - by law - can help in creating an improving informal participation within the enterprise. Although the prevailing belief or

assumption is that workers in these command economies have a collective orientation one might expect differences in attitudes according to personal and organisational factors. The research will attempt to assess how far social stratification (social position in the hierarchy) and membership of participative machinery can affect employees' attitudes regarding the above mentioned aspects.

Our null hypotheses are taken from the following assumptions put forward by the proponents of profit sharing.

The Assumptions

- (i) There is a demand for participation in developing command economies. Employees are willing to accept and are aware of such a scheme, all of which increase their satisfaction with it and will help in achieving government aims from applying it.
- (ii) The application of participation both in management and profit in the Egyptian case has led to an increase in employees' satisfaction, loyalty, commitment and discipline.
- (iii) Formal participation can lead to achieving informal participation, improving supervision and creating a co-operative atmosphere, all of which will facilitate and endorse management's authority over workers.
- (iv) The application of profit sharing scheme as a form of participation by force, particularly in the light of participation in management and state ownership will be accepted and its success guaranteed.

Research Methodology

To examine the thesis hypotheses, information is needed from the employees in the Egyptian industrial public sector. There are different methods for collecting field data. These are: documentary sources, observation, mail questionnaire and interviewing (Moser & Kalton, 1958; Phillips, 1976). Each of the above methods has its limitations and a combination of methods could be made and may be more appropriate to certain kinds of researches. Semi-structured interviewing with a guiding questionnaire was the method preferred to collect the data here for reasons discussed in Appendix 1.1.

In designing the questionnaire (Appendix 1.2) questions were prepared in such a way that would enable the hypotheses of the research to be examined. The questions were mainly of two types: the scale type of question and the open-ended type of question (Phillips, 1976). The scale type of questions are considered to be effective in getting the real and accurate opinions and attitudes of the respondent. However, this type of question suffers from the main disadvantage which results from the fact that the questions and answers do not always convey the same meaning to all persons. In this study, the researcher did his utmost to overcome this weakness and to explain the meaning of each question to all those interviewed. The open-ended type question has been used to ensure that every detail of meaning which the research needs will be brought out in answers (Beveridge, 1975). This type of question gives an opportunity to everyone to express his views in detail if he so wishes.

In addition, in order to make a check on the answers to the questions and to control for response errors that could exist the

researcher made a consistency check through repeating some of the questions in different forms. Re-interviewing was not made because the time allowed by respondents did not allow for that. Checking the answers with documents was not always possible.

A literature review was necessary to explore the subject and was used as a basis for the survey. The answers to the questionnaire were analysed and discussed in the light of hypotheses generated from a review of the literature.

The study was conducted in Egypt during the summer of 1978. Initial contact was made with the Central Agency for Public Mobilisation and Statistics (CAPMS) seeking their approval to carry out this study. According to state regulations the Agency excluded two types of manufacturing companies from the survey (motor cars and motor cycles) on grounds of national security.

It was also important to obtain the approval of the Ministry of Industry. The researcher explained to Ministry officials the importance of the study and the advantages expected to be gained from its results and succeeded in gaining their approval. In turn, the Ministry contacted the different companies asking them to cooperate with the survey without disturbing the work flow. As a result the following restrictions were imposed. The number of shopfloor employees to be interviewed from each company was limited to ten workers and ten foremen mainly because of the sensitivity of the subject particularly after the workers' demonstration of 1977 against increasing food prices and inflation. The total number of interviewees from each company was restricted to a maximum of fifty individuals. Thirteen companies were included in our sample giving a total sample of six hundred and fifty individuals (Arkin and Colton, 1964).

The thirteen industrial public companies were drawn up from a population of one hundred and eleven organisations (the total industrial public sector) distributed into four sub-industrial sectors - textile, iron, chemical and food. The companies included in the sample represent eleven per cent of the whole permanent workforce (Ministry of Industry, 1976).

The companies were chosen by industry, profitability and size (see Table 1.1). With regard to the classification of size of organisations, there is no agreement between theorists. Consequently, there are many measures of size of organisation and each has its limitations, such as sales, net assets, total assets, equity, profits and employment. These measures may be classified into three main categories as follows: firstly, inputs into the productive process (eg number of employees, labour input, some measure of assets representing the capital input); secondly, outputs (eg sales value); and thirdly, measures of the value of the enterprise (eg stock holders' equity) (Peseau et al, 1975). Choosing one measure rather than another depends and differs according to the purpose for which the measure is to be used. In this study the size of enterprises was measured in terms of number of employees because it is the most appropriate index when considering issues of employee alienation or attachment to the firm and it was easy and convenient to adopt since it is a basis for the collection of official statistics in Egypt.

A disproportional stratified sample was taken from each major occupational group inside each company involved. Such a sample consisted of directors and top management (6); professionals (10); foremen (10); workers (10); and workers' representatives on the company board (4). Further details and description will be given

Table 1.1

The main characteristics of the companies included in the sample

Selected Company	Type of Industry	Net Profit after tax (LE)	Size (Number of Workers)	
			Company	Plant
ENLGWENWE	Textile	(94,000)	3,258	980
EKLSWT	Textile	106,000	1,411	491
EMLWENE	Textile	1,695,000	6,281	3,050
EHLSES	Food	1,544,000	10,795	5,852
ECLDWES	Food	1,556,000	3,744	911
ENLDWES	Food	(1,373,000)	2,555	805
ENLZWES	Food	72,000	1,143	473
EPEH	Chemical	1,394,200	884	730
EPWESEK	Chemical	1,789,000	399	301
ENLZWEP	Chemical	(537,000)	3,942	2,686
ENLSEMESWL	Iron & Metal	855,000	1,779	1,015
ALALSEM	Iron & Metal	(1,238,000)	1,437	405
EMLMESEH	Iron & Metal	1,557,000	1,355	758

in a later chapter (Chapter Nine). Since sampling fractions in each social group are quite unequal, in estimating the various percentages for all employees in the industrial public sector we have adopted a weighting procedure in combining percentage estimates for each group. This adjusts the weighting of each group according to its relative size in the population. The weighting procedure is expressed in the following equation:

$$\text{Average overall percentage} = \frac{N_1P_1 + N_2P_2 + N_3P_3 + N_4P_4 + N_5P_5 + N_6P_6}{N}$$

where $N_1, N_2, N_3, N_4, N_5, N_6$ are the sizes of each of the respective categories of employee population,

and $P_1, P_2, P_3, P_4, P_5, P_6$ are the corresponding percentages of the total represented by each group in the sample.

and N is the total population of employees in the thirteen companies.

Problems Associated with the Completion of the Survey

The researcher faced the following difficulties when completing the study:

1. Top management were in some cases not cooperative. They did not want to admit any problems that their companies were suffering from, they did not want to disturb the work flow, or they wished to avoid any form of shopfloor protest or even alerting employees to that possibility. They often pleaded shortage of staff at the end of the fiscal year and a consequent lack of time. Three companies were rejected from the sample - even after the approval of the Ministry of Industry and the Central Agency of Public Mobilisation and Statistics - as top management refused to carry out such an investigation.
2. A long time was taken in explaining the meaning of every question to shopfloor workers in the sample, most of whom could neither read or write. Furthermore, some of them seemed afraid to express their real feelings towards the participative scheme because it had originally been introduced by their political leaders so that any criticism on the part of these workers might be interpreted in unfavourable light by authorities. They tried to avoid answering critical questions because they feared that they might lose their job. This put pressure on the researcher to spend a lot of time trying

to explain the advantages they would gain from cooperating with a study conducted under the supervision of a foreign university.

To reduce workers' fears the interviews were carried out in a room specially devoted to the purpose, with no other person present.

3. The researcher had to travel to a number of different regions in Egypt because the distribution of the sample was over a wide area.

However, despite these difficulties, the researcher considers this an experience of a life time, and he enjoyed every minute spent carrying out the interviews, or holding free discussions with the management.

Plan of the Study

This thesis has been divided into four parts. Part One is concerned with the conceptual framework. The main aim of this part is to find out the motives behind the application of such schemes in developed and developing countries with command economies, and to highlight the main differences between both. Chapter Two gives a historical review of the modern factory system of production in Western societies and explains how it affected the relationship between labour and capital. Chapter Three is devoted to examine the various management ideologies which were applied and the justification behind each. Also, it highlights the importance of participation in Western countries as a new ideology to legitimate control and authority. Chapter Four demonstrates the reasons behind the application of participative schemes in developing command economies.

Part Two is devoted to a theoretical review of the profit sharing schemes. Chapter Five deals with a theoretical review of the voluntary

profit sharing schemes in Western countries. Section One gives a brief illustration of the definition and its development in the West. Section Two gives a historical review of profit sharing schemes and illustrates the reasons behind the discontinuation of the early schemes, while Section Three deals with various techniques and operational aspects of such schemes. Chapter Six deals with the compulsory profit sharing schemes - with special reference to the Yugoslav experiment. This Chapter has been divided into four sections. Section One is devoted to a brief description of the Yugoslav social, economic and political systems. Section Two deals with the Yugoslav profit sharing scheme, while Section Three assesses and evaluates the problems, drawbacks and advantages of the participative schemes according to the published material and empirical studies available. Section Four summarises the main differences between voluntary and compulsory profit sharing schemes.

Part Three gives a historical review of the industrialisation process and the application of the profit sharing scheme in Egypt - a case study. Chapter Seven is devoted to a historical survey of industrialisation processes in Egypt up until recent days. Moreover, it clarifies the state of the labour force and illustrates the leading role of the government in industrialisation throughout its history, and the reasons behind it. Chapter Eight is designed to give a full description of the Egyptian profit sharing scheme and its historical movement. Also, it will illustrate the operational aspects of the scheme and its main characteristics.

Part Four Chapter Nine deals with the main findings of the field study in which a questionnaire and personal interview techniques were used. The employees' responses and attitudes are discussed

and analysed in relation to the research's main hypotheses generated from a review of literature. The analyses of employees' responses are carried out in the light of the Egyptian political, social and economic environments. In order to test the significance of the group's responses, a Chi-square test was used . Chapter Ten is devoted to summary and conclusions.

PART ONE

CONCEPTUAL FRAMEWORK

Introduction:

This introductory part begins with a discussion of industrialisation process and modern factory system of production in which the emphasis is on tracing how it affected the relationship between workers and management. The ideologies and theories which have pervaded industrialisation from the Industrial Revolution are examined, and are shown to be a means to justify management's authority and to attempt to gain workers' loyalty and co-operation instead of their hostility, put forward in the concept of participation.

This is followed by a study of command economies in socialist developing countries, demonstrating the reasons behind the application of participative schemes and industrial democracy.

Finally, the difference between the context in which participation is applied in developed and developing countries, will be clarified in justification of the present study.

CHAPTER TWO

Industrialisation - Factory System - Historical Background

Toward the end of the eighteenth century, the world witnessed the beginning of the Industrial Revolution in the United Kingdom, and introduction of the factory system of production. Some historians and scholars in the subject maintain that the revolution was the result of the factory system. For example, Hartwell has stated that economic growth occurred in that century as the result of industrialisation, and the development of the factory system (Hartwell, 1972). Hammond pointed out that the spread of the factory system represents the history of the Industrial Revolution (Hammond, 1963).

Indeed, it is like other historical events and stages, a very difficult task to trace exactly when the Industrial Revolution started and even when it ended. Recently, Moore has commented on that difficulty by saying:

"In history all starting points and ends of epochs are arbitrary. The temporal sequence of events neither starts with the opening sentence nor stops at the end of the volume." (Moore, 1957, p 17).

However, it is often identified as the period from 1750 to 1825 during which the accelerated application of mechanical principles, including steam power, to manufacturing in the UK, produced an identifiable change in economic structure and growth (Hartwell, 1972). Actually, it is beyond the objectives of the present study to examine in detail the starting time of the Industrial Revolution. The main desire is to concentrate on the introduction of the factory system itself, as a historical event, and its social effects on the prevailing societies (pre-industrial societies) in general, and on industrial relations in

particular which led in turn to various forms of management ideologies and State intervention to maintain the social order at the micro and macro levels.

Industrialisation - which Kerr et al refer to as the actual course of transition from the preceding societies toward the industrial society (Kerr et al, 1973) - is seen to change traditional culture and traditional relationships in the direction demanded by the needs of technology and markets. It has created a new type of relationship between all parties: workers, employers, and the society (Ibid). These relations are quite distinct from those used in trade, handicrafts, and agriculture before industrialisation. Nevertheless, one may add that the kind of relationships which prevailed in the feudal societies had been under a transformation process even before industrialisation. For example, the type of relationships which had prevailed prior to the guilds was really changed to more specialisation and division of labour as a result of introducing the putting-out system of production (domestic industries). Moore recently summarised the main structural changes after the decline of the guilds and before the Industrial Revolution as follows: (Moore, 1957)

1. The worker worked on materials supplied by the merchant.
2. The worker rented, leased, or was lent machines supplied by the entrepreneur.
3. The worker did not determine the type, quality or amount of goods to be produced, but filled orders placed by those more aware of the condition of the market.
4. The worker did not sell the product to the consumer. In fact, in the full development of the putting-out system he did not own the materials but was paid on a piece-rate basis.

Social relationships had, then, been structured by a transformation process even before the factory system, but it was slow in nature and

not like the processes which accompanied or were a result of the factory system. Yet the factory system did not occur all of a sudden, a new stage in history, but rather its introduction was a slow process. The factory system and Industrial Revolution, at the time, were more facilitated by the introduction of power-driven labour-saving machines, and had more far-reaching effects on the societies than ever before. In other words, various production systems went towards the changing of social relationships over time. The introduction of the factory system was slow but most significant in its effect on these relationships, on the status and roles, and the reciprocal rights and duties of persons in the productive process.

In contemporary industrial society there are still small workshops where the structure of relationships retain some resemblance to that of a very much earlier age. The division of labour is minimal and the small scale of operation makes possible a personalised set of relations between the master and the servants (Fox, 1974). The small scale of operations often results in jobs being less specialised, employees enjoying a greater variety and discretion in their work, relations being less structured and more informal. But pre-industrial work units consisted, and in some countries consist, largely of families with their own peasant holdings or craft workshops, where the wage income supplemented - or is supplemented by - some such direct access to the means of production. The pre-industrial rhythm of work and social behaviour was therefore directed by the seasons and the weather. The pattern reflected a ritualistic interpretation of life - with fiestas and fasts, high days and low days. In a simple division of labour, like that, the worker had a large measure of control over his own working conditions (ie the set up and make ready, the cleaning and repairing

of machines, obtaining his own materials, and so on).

"For the peasant, work varied with the season, involving long hours during the summer months and short hours during the winter. Moreover, many peasants were also occupied in the putting out system just as many workers in these industries had at least small strip of land which they cultivated. And the routine of their work entailed an unwitting adaption to a variety of tasks and to an irregularity of performance which were incompatible with the specialization and machine-driven regularity of factory work." (Bendix, 1974, p 38).

Barbara Ward had noticed the change in the kind of relationships after the industrial revolution:

"Modern industrial civilization, with its technical evolution and intellectual drive is, as we know, the most aggressive form of civilization that mankind has ever known. Its twin impact of science and industry is one that involves a total transformation of all aspects of life - not only of organizational technique but of fundamental habits of thought and social behaviour. You have only to consider the impact of this type of society upon people who have not yet moved beyond the simplest patterns of living and working to see that, without immense patience, understanding, and restraint, the incoming settlers will annihilate the whole social apparatus of the backward local peoples." (as quoted by Kerr et al, 1973, p 258).

The factory system is and was the organisational form from which this structure of relationships has sprung (Hammond, 1963). It is a system of production which has given rise to the division of labour and the intensive use of machinery. It was the organisation of effort on the principle of the division of labour in such a way as to make the fullest use of the resource of science (Ibid). The use of machines gives its special character to the new system as against all preceding ones (Marglin, 1976). For example, Marx identified the factory as a workshop in which machinery is employed (Marx, 1959).

However, some argue that the machines of the early factories were

precisely those already used in the domestic industries and that, therefore, economies stemmed from organisation per se (Hammond, 1963). Crudely speaking, a factory is an establishment where a number of work people are concentrated for the purpose of obtaining economies of scale in the use of labour which could not be produced individually in the home. These economies were built up on the additional power and output capacity furnished by machinery, together with the complementary accumulation of human labour. The factory system is designed to make labour as productive as possible in order to accumulate "added value". Maximum output was thus seen as the goal of the work organisation and the objective requirement of the disposal of the means of production. Briefly, the main characteristics of the factory system, in the modern sense, which distinguishes it from the very old ones, can be summarised as fixed capital and concentrated labour (Moore, 1968).

The existence of accumulated capital and labour can be seen as giving rise to two classes, first those who give their labour for a wage, second those who own capital, raw materials, and machinery and rely on the profits or added value produced by the combination of their property with labour power (Moore, 1963). But the factory system of production had much impact on the society in general and workers in particular. It brought with it many advantages and disadvantages to the civilised society.

"... In costing up the social balance sheet for the factory system one would, by general consent, put on the credit side such things as "store cloths" and tufted tooth brushes, to say nothing of radios, automobiles, telephones, and other items of modern urban living, and on the debit side industrial accidents and diseases, child labor, urban slums, and unemployment. But whether the next balance would be black or red cannot be scientifically determined." (Moore, 1968, p 32).

The following section will illustrate the main impacts of the factory system namely as: positive and negative impacts.

2.1 The Main Impact of the Factory System

2.1.1 The Positive Impacts

The factory system as a system of production had great positive impacts on society. Adam Smith justified the importance of the division of labour as a necessity to achieve economic growth. According to him, economic growth depends on the division of labour, which improved the skill of the labour and enabled different specialist occupations to be developed (Moore, 1963).

Dr Andrew Ure in his defence of the factory system, argued that it created more job opportunities for the workers, improved the working conditions which prevailed in the domestic industries, and raised the wages of workers (Bendix, 1974). Moreover, the use of new technologies and machines achieved the more effective utilisation and combination of new resources, diversified production, facilitated the application of new materials, and made transportable power more viable (Moore, 1968).

In addition, Weber indicated that bureaucracy - which he described as one of the most important outcomes of the industrial revolution - was the most efficient form of administrative organisation. Experts with much experience are best qualified to make technically correct decisions and should, therefore, be given authority. Disciplined performance governed by abstract rules and co-ordinated by this authority hierarchy fosters a rational and consistent pursuit of organisational objectives (Merton, 1968). Industrialisation and the factory system led to the introduction of a bureaucratic system of control based on administrative procedures, rules and office-based activity. While bureaucracy existed in the older system of control by which order had been maintained in society, authority was more generally ascribed to individuals by custom

and traditions.

Charles Babbage summarised the main advantages of the division of labour and specialisation as follows: reduction of time required for learning; the saving of formality wasted materials in learning; reduction in the change of tools; the increase of workers' skills; and in their creativity (Babbage, 1972).

As far as the productivity is concerned, Slicther noted that the average American worker today produces as much in half an hour as his British counterpart did in a whole working day a century ago (Hammond, 1963). Moreover, the factory system provided a suitable climate for technical change which led to this increased productivity (Marglin, 1976). In turn, the increase of productivity raised the standard of living of workers. For example, according to Boyston, between 1801 and 1901 the average annual income in England rose from £12.9 per head to £52.9 over a period when the purchasing power of money actually increased (Boyston, 1972). In the meantime, he added, the Industrial Revolution helped England to find work for her increasing population and keep them alive at a rising standard of living.* Also, the factory system developed a concentrated disciplined industrial force with a new variety of skills (Kerr et al, 1973).

The development and the increasing size of the industrial organisation may be considered another main impact of industrialisation and factory system. Since the Industrial Revolution the development of business organisation has to a large extent been one of adaption to technological process. This has in turn been related to the growing

* The rate of increase of the population was 6.8% at the beginning of the 18th century, and arrived at more than 100% during the period 1801-1851.

size of the market. Moore, states that the technical improvement of the early factories led directly to an increase in their size. Between 1860 and 1890 the number of cotton factories in the USA declined from 1091 to 905, but the value of their product increased by 179 per cent and the number of spindles per mill by 227 per cent. Over this period, the trend was toward increasing size of plants especially in industries using heavy machinery (Moore, 1963).

In Britain the picture was the same. Tillest, emphasises the increase in average firm size over the nineteenth century (Child, 1976). The average number of workers per factory in Britain increased from 137 in 1838 to 191 in 1885. Blau and Scott indicate that the size of manufacturing firms continued to increase during the first half of this century (Blau and Scott, 1963).

It is clear from the above data that there was a trend toward a large scale organisation, which accompanied the industrialisation process. This appears to have related to the use of more advanced technology and the advantages of economy of scale including efficiencies in production and sales, and the ability to use accumulated profits for future development. More recently, Child and Kieser have suggested three main motivations for the growth of the firm (Child and Kieser, 1976):

1. The growth of an organisation makes it easier to achieve and satisfy the demands of all the organisational members for increased power, challenge, etc.
2. Growth can also reduce an organisation's dependence on other organisations, that is, great control over its environment, avoiding takeovers (the classical monopoly situation).

3. Growth may result as a by-product of other strategies, including the success of an organisation in meeting the demand of its services.

From the above discussion, it is clear that introduction of the factory system led to many positive advantages for the civilised society namely: efficiency, productivity, economy of scale, expert knowledge, and jobs.

2.1.2 The Negative Impacts

In spite of the advantages of the factory system and industrialisation, there are many negative impacts of it on society as a whole, and the workforce in particular. Its most profound impact is on the relationship between employees and employers.

Industrialisation requires a constant renewal of skills to keep up with technical innovation. The skilled occupations of traditional society are broken down by industrialisation into a series of separate operations often performed by semi-skilled workers and fewer highly skilled workers (Kerr et al, 1973). These continuing changes have been seen to lead to considerable frustration and loss of confidence on the part of the workers. Their career security was eroded by the loss of skills involved in shifting handicraft workers into the factory.

In its later stages, industrialisation brings an increased complexity in the division of labour in the form of more specialised jobs. Wilensky and Lebeaux observe that the dilution of skills is one effect of this type of specialisation (Wilensky and Lebeaux, 1965). Traditional skills are broken down into easily learned components. Processes formerly handled by one person are torn apart. The separation of component tasks

are then mechanised and can be assigned to unskilled workers. The result, according to Wilensky, is that workers suffer a "loss of workmanship" or "pride of craft", they also lose their independence and self-reliance.

Moreover, the process of industrialisation, and factory system in particular, has broken down the personal relationships between employee and employer which prevailed in the pre-industrial society. Some sociologists have set this change at the centre of their analyses of industrial society. The increasing division of labour, the growing size of scale operations, the development of larger and impersonal labour markets, the quickening of competition, has been related to the emergence of ideologies which legitimatised and encouraged the pursuit of individual self-interest, and has led to a weakening of the former diffuse relationship between employer and employee. As a result this relationship is now marked by impersonal and narrowly contractual attitudes and behaviour, and by mutual distrust and grudging calculation (Fox, 1974).

Another impact of industrialisation which stems from the complementary process of bureaucratisation is the vast network of detailed rules, regulations and norms that arise out of it. The web of rules becomes more explicit and formally constituted in the course of industrialisation:

"... the factory and boarding house regulations were innumerable and covered every smallest corner of the operatives' lives ... The operatives were told when, where, how and how much they must work, when and where they were to eat and sleep." (Kerr et al, 1973, p 202).

This led in turn to an increasingly estranged relationship between employee and employer. Also, it led to reduced employee control over his work and a loss of the autonomy which had prevailed in the pre-industrial

society, when the worker was responsible for the whole production process.

The loss of pleasure in work consequent upon the change from handicraft to mechanical routine, was another impact of the factory system (Hammond, 1963).

"In pre-industrial society, the workman used his tool, in the factory the machine makes use of him. There the movement of the instrument of the labour proceeds from him, here it is the movement of machine that he must follow. In the factory, the workman becomes a part of a living mechanism ... In the factory there is a lifeless mechanism independent of the workman, who becomes its mere living appendage." (Marx, 1976, p 6).

Wilensky and Lebeaux stated that the charge that the machine has enslaved man, seemed to be based on four major changes that the factory system brought about, as follows: (Wilensky and Lebeaux, 1965)

1. Work in modern industry must be regular, workers punctual.
2. The modern worker is dependent for his livelihood on a corporation or an employer who owns the machine and controls the conditions of work.
3. The machine often is in direct competition with the worker: mechanisation means continual change in jobs, both the number of workmen and the skills needed in workplace are in constant flux.
4. The modern worker must often move his residence in response to the demand of changing technology and opportunity.

As Anthony has pointed out, the mainly negative orientation of industrialisation was clearly represented in the early exploitation of child labour. Weakened family relations resulted as the factory system

replaced the family system as the unit of work organisation. In doing so it changed the basis of social organisation and gave birth to the class structure (Anthony, 1977).

More recently, Bertrand Russell remarked that industrial revolution caused unspeakable misery in England and America (Wilensky and Lebeaux, 1965). He thought that without any doubt the average happiness in England in the early nineteenth century was lower than it had been for a hundred years and this was due almost entirely to the use of "scientific techniques".

Although the division of labour was present before the world knew the factory system in its modern sense it was more over and basic to the cultural background of industrial systems than in previous ones. Industrialisation has been defended by many scholars on the ground that it does the society real good. But ideals upon which it was legitimated, the doctrines of self-help or "laissez faire" and the conclusions to be drawn from the applications of the principle of the specialisation of labour are not always in complete conformity. The conflict between the ideology of self-regulation and the imposition of standardised rules may lead to what the French sociologist Durkheim described as "anomie" (Moore, 1968).

Durkheim found that the industrial society (at that time) which mainly operated under the doctrine of laissez faire and self-regulation was confronted with the problem of social disorder, as a result of lack of self-direction. Moore, summarised the conflict when he suggested that interdependence is no guarantee of integration (Moore, 1968). Durkheim distinguished between two kinds of social solidarity and integration: one based on the common values, and the other based on specialisation and interdependence. For him solidarity can be achieved only if it is

in the former kind of solidarity. The latter kind of solidarity will lead to what he described as "anomie and rulelessness". Therefore, he found that the extreme division of labour and specialisation did not help in keeping the social order and integration, but it made the individual worker more dependent upon the society and his loyalty tended to follow a narrow interest.

So, in reality, as can be observed from the above discussion, although the factory system brought about increased efficiency and a steadily increasing size of industrial organisation, it also brought an extreme division of labour and specialisation within bureaucratic forms of organisations. This led to feelings of self-estrangement, isolation, powerlessness and meaninglessness among workers; sociologists describe these conditions as those of alienation (Anthony, 1977).

"Domination, futility, isolation, and discontent are each aspects of experience that have been identified as elements of general conditions of alienation." (Blauner, 1973, p vii).

The next section will examine in more detail the problem of alienation.

2.2 Alienation

Marx was one of the first writers to identify the concept of alienation and to analyse its sources. Perhaps he succeeded in changing the world partly because he changed its understanding of work. After Marx, however, there has been a continual interest in worker alienation and with actual or potential conflict either in industrialised or industrialising societies (Anthony, 1977).

Alienation may appear to be only a managerial problem insofar as it represents an obstacle to the achievement of managements' objectives. Workers' hostility has revealed itself in its most extreme form in

political action (Ibid). The importance of worker resentment has been felt by most industrial societies, either in the Western or Eastern Bloc countries. In the west, managements' fear of workers revolution against the capitalist state may rest on a fear of communist class theories of revolution (Ibid). In the Eastern bloc, the revolution has happened already, and workers have achieved a formal state in the composition of the state and the political regime. On the other hand, the state usually uses central planning to achieve its objectives, and this form of control may lead to the alienation of individuals much as it does within Western bureaucracies.

Marx saw the source of alienation as being in the existing conditions of capitalist production which dehumanises the worker, by reducing his specifically human qualities to the quantitative, inter-changeable value of money (Marx, 1976). For Marx, the factors which constitute the alienation of labour are:

"First that work is external to the worker, that it is not part of his nature, he does not fulfil himself in his work but denies himself, has a feeling of misery, not of well-being, does not develop freely his mental and physical energies but is physically exhausted and mentally debased ... the worker, therefore, feels himself at home only during his leisure time, when at work he feels homeless. His work is not voluntary but imposed, forced labour. It is not satisfying his other needs ... Finally, the alienated character of work for the worker appears in the fact that it is not his work but work at someone else, that work he does not belong to himself but to another person (Marx, 1963, p 169-170).

The above is a brief discussion of alienation and its source from Marx's view. One may notice easily that Marx was mainly blaming capitalism and capitalist society for workers' alienation. In fact, the prevailing ideology of laissez-faire at that time with its negative impacts on the workers did help Marx in building up his main argument. But Loveridge has suggested that "Marx was concerned with larger questions of what man's

potential is and how has, and does, society present or encourage the development of this potential" (Loveridge, 1976(A), p 17). Blauner noticed that non-marxists and even anti-marxists followed Marx in his view that the factory system, with its increasing division of labour, and the general structure of capitalist institutions has led to an estrangement of worker from his work. Moreover, the intelligence and skill previously expressed by craftsmen is built into the machine. The majority of workers tend to be found in routine and monotonous jobs. The control exercised by the individual in pre-industrial society has been lost to the machine. Similarly the increasing division of labour has made jobs simpler and reduced employees' responsibility. "A job made up of only one of few operations needs no real responsibility, nor does it require an understanding of the factory's total productive process" (Blauner, 1973, p 3). Consequently, the alienation of meaninglessness was added to that of powerlessness.

The most basic element which contributed to the alienation of employees was the property of capitalist society. The factory belongs to the entrepreneur, the worker was propertyless. The worker had no legal or social claim to the product or good he produced, therefore, he is alienated from the product of his labour. In addition, because the factory belongs to the owner, the worker is not likely to identify with the fortunes of the establishment. All of which gave rise to a third aspect of alienation - the sense of isolation from the system of organised production and its goals (Ibid).

As a result of specialisation, the worker loses his control, which means less freedom, initiative, and creativity. The goals of enterprise become remote, and the work itself is deprived of any

co-operative meaning. The worker does not identify with the productive organisation but feels himself an insignificant part of a complex whole. This is the fourth aspect of alienation: self-estrangement (Ibid).

Unlike Marx who saw alienation as a direct result of the capitalist system, one of the more recent sociological studies by Blauner concluded that alienation stems from the impersonal nature of large scale bureaucratic organisations not from capitalism as such.

The arguments in favour of Blauner's view seem evident when comparing worker satisfactions across capitalist and socialist societies. Alienation appears to be a result of large bureaucratic organisations and impersonal contractual relationships which accompany the industrialisation process. One may add that alienation is a social phenomenon which faces all developed and developing countries including those under command economy regimes. As a result of the field study in Egypt, the researcher believes that alienation is not a product of the economic system (ie capitalism) but rather a product of bureaucratic organisation per se. It is considered to be one of the most important problems which prevents developing countries from achieving these social and economic objectives.

Industrialisation is seen to have changed traditional relationships and culture and it has imposed its own new culture and relationships (Kerr et al, 1973). Moreover, the workers have tended to develop a sense of protest against the course of the change brought about by the factory system. Workers who are alienated tend to organise themselves against their master. They bring pressure on the management by organised or unorganised modes of collective protest. Kerr et al argued that the sense of protest among workers is latent everywhere as a result of

industrialisation processes. Also, they observed the increasing pressure from the workers toward a sharing of power (Ibid). Pignon and Querzola have observed that absenteeism, labour turnover, spoilt work and even active stoppages have become the running sores of the mass production industries in America (Pignon and Querzola, 1976). They stated that despite the fact that it is a general practice for hourly paid workers to have their wages docked for time lost, absenteeism has gone up massively over the last ten years:

"At General Motors, Ford and Chrysler, absenteeism has doubled in the past ten years - reaching a peak in the last two, and recently reaching an average of between 5 and 10 percent" (Pignon and Querzola, 1976, p 64).

Moreover, they indicate that at AT&T (American Telegraph and Telephone) which is considered to be one of the biggest private enterprises, the personnel managers face a nightmare task just trying to recruit people. They have had to carry out more than two million interviews a year in order to take on 250,000 new workers. In addition, the writers point out that in an increasing number of situations workers responded by withholding moral involvement in their employers' objectives, seeing the employer as pursuing his own interests to the exclusion of their objectives and interests. Therefore, they organised themselves to force the employer to consider their needs.

In the field of productivity, as another indication of workers' resistance and protest, the above authors found that workers had used go-slow techniques, hidden sabotage, output restrictions, and faulty products and all of which represent threats to the employers (Ibid).

Nevertheless, Kerr et al suggest that there is a relationship between the kind of employees' commitment and the form of protest

(Kerr et al, 1973). In the case of the uncommitted workers: turnover, absenteeism, fighting, thefts and sabotage will be the main characteristics of their protest. For semi-committed workers, they suggest that spontaneous stoppages, demonstrations, and guerilla strikes will prevail. In the case of committed workforce the protest may take the form of plant and industrial strikes, and political protest and activity. Moreover, in the case of more committed workers whom they call "specifically committed workers", grievance machinery, labour courts, dispute settlements, and political party and organisational alliances may become the main form of their protest.

Conclusion

Management in industrial societies is confronted by the main problem of how to guarantee workers' co-operation and loyalty to the industrial organisation and its objectives, of how to keep its control over the workforce and on what basis it can legitimise the authority it needs.

"The relative importance of the industrial worker, his growing associative strength and the increasing awareness of the costs and dangers of his withdrawal of co-operation begins to focus the employer's attention upon the fragility of the relationship of dependence which binds him to the employee. He begins to see the worker as a threat. The higher the expectations of performance the greater the potential threat the worker is seen to represent" (Anthony, 1977, p 302).

Through the long history of industrialisation and factory system in the Western industrialised countries, management has tried to cope with these perceived problems. The need for participation as a response to worker alienation and potential hostility became recognised early in the Industrial Revolution - but only by a few pioneers. The following chapter will examine in more detail the various management ideologies and philosophies which were applied and the justification

behind each. This analysis will highlight the importance of participation in industrialised societies as a new ideology to legitimate control and authority.

CHAPTER THREE

Participation as a Response to Workers' Alienation

The introduction of the factory system confronted entrepreneurs with the new problem of labour management. At that time there was a shortage of workers but many people did not even like to work regularly. The elite adopted a theory of dependence - best articulated by the seventeenth century philosophers as a conceptual basis for the new social order. This ideal helped in maintaining social order and facilitated the introduction of the factory system and creating the industrial workforce. Bendix notes that although in the early days of industrialisation (ie the late eighteenth and early nineteenth century) the retention of traditional culture was a great obstacle to the mobilisation of labour, while traditional deference displayed in master-servant relationships tended to facilitate the manipulation of labour by management (Bendix, 1974).

The theory of dependence has been best described by John Stuart Mill as:

"... the lot of the poor, in all things which affect them collectively, should be regulated for them, not by them. They should not be required or encouraged to think for themselves, or give to their own reflection or forecast an influential voice in the determination of their destiny."

"... It is the duty of the higher classes to think for them, and to take the responsibility of their lot, as the commander and officers of an army take that of the soldiers composing it. ... the relation between rich and poor should be only partially authoritative; it should be amiable, moral, and sentimental; affectionate tutelage on the one side, respectful and grateful deference on the other. The rich should be in loco parentis to the poor, guiding and restraining them like children. Of spontaneous action on their part there should be no need. They should be called on for nothing but to do their day's work, and to be moral and religious. Their morality and religion should be provided for them by their superiors, who

should see them properly taught it, and should do all that is necessary to ensure their being, in return for labor ... properly fed, clothed, housed, spiritually edified, and innocently amused" (as quoted by Bendix, 1974, p 47).

The philosophy of social reform was based on a view of the industrial labour force that saw labour as a resource to be utilised properly and well. It was a worker's duty to labour. The utility of poverty and the importance of subsistence wages were used and accepted to enforce these beliefs (Ibid).

However, the doctrine of dependence and the utility of the poverty did not remain viable principles for long. The discontinuation of this ideology was mainly due to its failure to achieve its objectives, that is to create a disciplined labour force and to maintain the social order. Another more immediate reason for its discontinuation was the public criticism of poor relief.

"The denial of responsibility on the part of the 'higher classes' and the demand for self dependence on the part of the 'poor' became the basic orientation of Parliamentary efforts to solve the problems of poor relief. It is true that manufacturers were not directly concerned with these questions which related primarily to problems of rural administration, but these men became involved with the new conception of class relations which that doctrine contained. Their daily solution of managerial problems, their efforts to defend themselves against public attacks, and their strong opposition to governmental regulation led them to disclaim all responsibility, and to justify their power in terms of their contribution to the wealth of the nation." (Bendix, 1974, p 86).

As a result of the failure of the theory of dependence, another doctrine was introduced, which clarified the principle that people must depend upon themselves. The rich were not to be responsible for the employment of the people or for the relief of the poor. In the meantime, cooperation between all classes was needed to achieve everyone's needs. But everyone, who was a free agent, through achieving

his objectives would achieve the greatest welfare for the society.

This new doctrine of "self-interest", or "laissez-faire" was best articulated by Adam Smith (theory of invisible hand). According to the doctrine of laissez-faire all external controls should be replaced by checks and balances coming from within the system itself. If men could only work when and where they pleased, develop any trades from which profit could be won and leave the control of quality to the consumer - free of guild and governmental regulation - both the individual and national welfare would be served. The ultimate control of the system was that of individual self-interest.

"In principle the state is outside the economy and its role is to protect property and unlimited private initiative ... motivated exclusively by their personal interests, private producers nevertheless produce in the social interest, for they produce precisely those commodities that are necessary ..." (Horvat, 1975, p 130).

Historically, the laissez-faire doctrine had some positive impacts on the industrial societies. Horvat, believes that it "served as the means for integrating the earlier fragmented economy into a unified national economy" (Horvat, 1975, p 130). Bendix in common with Horvat adds that "this ideology had major significance in the development of English industrial society" (Bendix, 1974, p 115). According to him, instead of the deep division between classes, the self-interest ideology (the optimistic appeal) equalised aspiration across workers' and employers' classes. Each individual success was a proof of the whole system and in turn contributed to national wealth.

"There was evangelical zeal in this appeal of employers to drive the ambition of the people. By bidding the people to seek success as they did themselves, the employers manifested their abiding belief in the existence of a moral community regardless of class, for they proposed to measure the worth of each man by the same standard." (Bendix, 1974, pp 115-116).

Nevertheless, the doctrine of laissez-faire did not achieve the objectives which its authors claimed for it. From the economic point of view, Horvat sees the above ideology as inadequate.

"The 'invisible hand' did not prove to be especially efficient. Periodic crises of over production and unemployment alternated for an entire century and a half. Growth was relatively slow (about 2% annually, compared to the world average today of 5% and 10% in the most rapidly growing contemporary economies)." (Harvat, 1975, p 130).

As far as the moral aspect is concerned, the doctrine encouraged the pursuit of self-interest and prevented that of collective moral concern and responsibility. This at any rate is the view of Anthony in whose opinion:

"Capitalism requires a degree of commitment to work it is incapable of commanding ... capitalists can require merely that employees will work for money, at least, that is the limit that consistency imposes on them ... capitalist theory will explain why men work but the explanation will not encourage work, at the lower levels, of sufficient energy and intensity, by fatigue, or by boredom ... it is not so much that capitalism has actively alienated labour, it is rather that capitalism has never succeeded in synthesizing labour." (Anthony, 1977, p 144).

Workers were free to organise themselves and when trade unions appeared Bendix believes that their independence, once granted, led to their becoming a political force which could not be undone (Bendix, 1974). In the meantime, a number of reform movements arose, some broadly humanitarian, others Christian or aesthetic in origin, condemning the inefficiency, injustice or ugliness of capitalism calling for the re-organisation of the society which created it.

Early movements were revolutionary in the sense that they postulated the overthrowing of the established industrial order and its replacement by some form of workers' control. They were essentially anti-capitalist, being based on an over-simplified concept of capitalistic society and of

economic exploitation of labour by capital. They called for a new society in which labour would play the dominant part and exploit capital for the benefit of the workers. These ideas have a long history, which include some attempts at practical application, ranging from the Owenite movement of the 1830's through mid-century Christian Socialism to the Syndicalism of the late nineteenth century and early twentieth century with its later variant, Guild Socialism (Reibel, 1975). Following and often paralleling these, were the Reformist movements which believed that workers' rights - freedom from arbitrary action, protection against the grosser form of exploitation, and some voice in determining the terms and the conditions under which their work was to be undertaken - could be upheld even in the existing system of private employment.

In practice the political situation that emerged necessitated the State's increasing intervention to maintain social control and to correct the ugliness and disadvantages of such a doctrine.

"Laissez-faire in its turn gave ground increasingly in the 19th century to an interventionist state" (Armstrong, 1975, p 109).

Extreme pressures grew on management to find a solution for their local problems of man management in order to limit the State's potential intervention. The occurrence of widespread disorder became an increasing threat within complex and interdependent societies.

One strategy attempted by the employers was a revival of paternalism. Anthony believes that this tradition of paternalism continues to contribute a main ideological element to the relationship between employers and workers in Britain and that it grew naturally from the values of mediaeval society (Armstrong, 1975). The network of obligatory and dependent relations established under the control of God was translated

into the bureaucratic hierarchy of the factory, "Benevolence and responsibility were stressed as duties of the employer if he was to expect loyalty, obedience at work" (Anthony, 1977, p 222).

Hoselitz (quoted by R Dore) describes paternalistic relationships as: ascribed characteristics which affect the relationships; the employment relation is not specific but diffuse - affecting the whole man; the employment relationships is not based on any universalistic principle; and these relationships are affective rather than affectively - neutral, there are warm human ties not just impersonal cash nexus of the market place (Dore, 1973, pp 269-270).

However, the development of the industrialisation process and factory system led to a weakening of the paternalistic relationships for a variety of reasons. Industrialisation requires labour which is mobile both geographically and socially and which is educated to a level which demands and justifies its independence. Impersonal relationships in bureaucratic organisations are built on rational rules, procedures, policies: the professionalism of the manager comes to replace the owners rights of property (Anthony, 1977). Anthony has summarised all these reasons by stating that:

"Paternalism meets or creates an almost inevitable challenge to its authority as it teaches its employees sturdy independence ... it also faces, in large and complex industrial enterprises a challenge from the managers whose role is to intervene in the employment relationship between the owner and the worker (Anthony, 1977, p 222).

The separation of ownership from control (Ibid) and the appearance of a managerial stratum instead of the owners - in the majority of industrial organisations - also elicited the need for new management ideology and techniques to deal with the workforce and to justify its authority over them. In other words, the authority of employers which

rested on the acquisition of property became out of date, and management had to find another basis for its legitimacy.

However, the focus and bases of this legitimacy remained multi-various (Child, 1969). Authority relationships in developed nations have changed and developed as managers seek to gain the cooperation of the workforce or at least as Anthony puts it, to avoid the withdrawal of effort on the part of workers. In Britain management is seen as trying to gain workforce approval for its authority in the face of extreme attacks from reformist politicians on traditional authority, accompanied by the flourishing of trade unions and the critical need for production in crises such as the First World War (Anthony, 1977).

The War followed chronologically behind Scientific Management which might be considered one of the most important influences on management in the post-War period. It offered a useful strategy for handling technical problems and was seen as overcoming, though not solving, the potentially alienating effects of large modern bureaucratic organisations (Fox, 1974). It was an appeal to management and workers to join in a unity of purpose on the basis of "economic man". This assumption is best summarised by Schein as follows:

- "(1) Man is primarily motivated by economic incentives and will do that which gets him the greatest economic gain.
- (2) Since economic incentives are under the control of the organization, man is essentially a passive agent to be manipulated, motivated and controlled by the organization.
- (3) Man's feelings are essentially irrational and must be prevented from interfering with his rational calculation of self interest.
- (4) Organization can and must be designed in such a way as to neutralize and control man's feelings and therefore his unpredictable traits." (Schein, 1970, p 56).

This view is seen by Schein to have largely prevailed among employers. Financial incentives have been applied to motivate workers to increase productivity and to legitimatise authority over the workforce. Through the application of logical reasoning to work organisation Scientific Management attempted:

1. to create a common objective for all parties concerned
(Bendix, 1974)
2. to obtain workers' obedience to management authority on the basis that it is more beneficial to them (Guest and Fatchett, 1974)
3. in turn, this was seen to lead to a weakening of the loyalty of the workers to their unions and make them more committed to their companies.

However, Scientific Management was criticised by representatives of both parties. Trade union leaders were against it initially because Taylor was against their movement and thought - as management did - that there was no need for it. Management - according to Taylorism - had to shoulder more burdens and responsibility (Taylor, 1976). Many of them did not agree with Taylor concerning the necessity of more directive management, while others considered it an unwarranted interference with managerial prerogatives (Bendix, 1974). Scientific Management gradually extended across companies but only in limited applications (Maslow, 1970).

"Yet the principle ideas in Taylor's work were widely accepted: the social philosophy rather than the techniques of scientific management became a part of prevailing managerial ideology." (Bendix, 1974, p 281).

In reality, although the application of financial incentive systems may have achieved some of management's objectives they did not eliminate

alienation and release a latent spirit of cooperation. Payment by result systems had been applied for a long time. But, for example, in Britain a Ministry of Labour enquiry (1961) showed that the proportion of wage earners paid by results rose from 25 per cent in 1938 to 32 per cent in 1951 and remained at about that level at 1961. A decade later, the National Board for Prices and Incomes Report (No 65) estimated that payment by result systems still applied to at least four million workers in Britain (NBPI, 1970).

This kind of financial incentive was often introduced with the object of reducing costs, enabling management to measure productivity, and providing a system of formal control (Marriot, 1961). In practice there were many disadvantages to such payment systems. Brown gave it as his opinion that PBR systems were one of a number of important factors keeping the rate of investment in new machinery and methods low in the United Kingdom (Brown, 1966). Another study by the Brookings Institute suggested that payment by results had probably diminished productivity having frequently turned out to be a productivity depressant rather than a stimulant (Smith, 1976). On the other hand, in cases investigated by the National Board for Prices and Incomes Report (No 123) the introduction of short-term payment systems led to short-term increases in productivity (NBPI, 1969). But as Guest and Fatchett have argued, this kind of incentive scheme gives workers enough control to be able to force management to bargain with them and this in the longer-term may have acted as a depressant (Guest and Fatchett, 1974).

This brief discussion of one Scientific Management technique suggests that when job control becomes more complex and competition within the organisation may become more severe, management's original purpose in its adoption may be undermined. The appearance of Human

Relations theories in the USA might be said to be based on a realisation of these difficulties.

"It was apparent that many workers were not responding primarily to the managerial controls which operated through the formal organizational structure and through the incentive payment schemes. Instead, production was influenced by pressures exerted by the social group." (Guest and Fatchett, 1974, p 73).

The Hawthorne* studies clarified the importance and the strength of the informal group pressures in influencing the behaviour of the workers and in subverting the direction of the management.

"... man will resist being put into a competitive position with other men ... He may well handle the threat which competition implies to the loser by banding together with others to resist the threat." (Schein, 1970, p 59).

The Human Relations movement was built on a conception of man as a "social man". According to this concept, man is seen to be socially motivated. He is more fundamentally responsive to the social group than to financial incentives and the formal controls of management. These social needs constrain his responses to either cash or coercion (Ibid).

Management had therefore to recognise that its assumption that man was a "rational economic animal" was not necessarily true. The new concept of "social man" recognised the need for the support of informal norms of the work group if the formal organisation's objectives were to be achieved. Management's attention was to change from production -

* Whether the Hawthorne studies had been the first introduction of Human Relations theories or not, it is a matter of debate and beyond the present study. However, the researcher tends to believe those who thought that the Hawthorne studies were a turning point in the changing assumption about men at work.

centred supervision to, as Guest and Fatchett called it, a person-centred control system. It made clear the importance of the two ways communications system and the social and welfare services (Guest and Fatchett, 1974).

However, both Scientific Management and Human Relations theories begin from the assumption that the interest of management and workers are the same and there is no conflict between them.

"Both reflect a unitary approach which emphasizes that the interest of the management and workers are basically the same." (Guest and Fatchett, 1974, p 73).

For Scientific Management low productivity was a result of faults in either the incentive payments or by some aspect of the working conditions. For Human Relations theories conflict was the result of a fault in management techniques and incentive systems. However, in the majority of cases - as has been noticed by Anthony - the communication system had been considered as the main cause of the occurring conflict (Anthony, 1977).

Yet, the Human Relations concepts* were welcomed by many managers "particularly as a defence against assaults on their legitimacy" (Guest and Fatchett, 1974, p 74). It helped the executives of large organisations to maintain the view of common purpose and to discount the need for trade unions. Guest and Fatchett argued that managers became attracted to the concept in the post-war period, when labour was scarce and the need for its full utilisation was important. Also, perhaps it was easy for the

* In fact there has been many changes in the earlier Human Relations approach through all the time, in attempts to prove its applicability to industry. For more detail see Likert, 1961; Schein, 1970.

senior managers to remove or reduce the blame on themselves for the communication system and to see the foremen as the new mediator between the top and bottom of the hierarchy (Guest and Fatchett, 1974).

But historically, the application of Human Relations theories by "enlightened" managers and the creation of two way communication systems do not seem to have reduced worker alienation. Anthony suggests that it did not succeed for the following reasons: a) it had to meet the continued challenge of organised labour; the results show that conflict does not diminish and, in some respects, it tends to increase; b) there is not much evidence of managers becoming more satisfied with the resulting changes in their own behavioural styles (Anthony, 1977). Moreover, Guest and Fatchett have pointed out that management found it more difficult to substantiate their claim to professional expertise alongside their newly conceived role as leaders of a team (Guest and Fatchett, 1974).

This ideological incongruency became intensified when the appearance of the concept of self-actualisation demonstrated the shortcomings of the Human Relations theory. According to the self-actualisation concept the motivation and desire to exert control emanates from the intrinsic needs of the worker. Satisfaction relates to the degree to which these are matched within his job content rather than through material rewards and social sanctions. It recognised a personal need for autonomy, challenge and self-actualisation in work which become paramount after the primary needs for security and social needs once the latter have been fulfilled. Intrinsic sources of motivation are regarded as more important than extrinsic factors such as financial and social rewards once these have reached a certain level of adequacy (Ibid). Moreover, the most significant of such rewards, that is the satisfaction of ego and self-actualisation needs, could be the immediate product of effort directed

towards organisational goals according to McGregor. The average human beings learn, under proper conditions, not only to accept but to seek responsibility (McGregor, 1960).

Again, critics such as Guest suggest that by concentrating on the intrinsic aspects of the job, there is a tendency to ignore causes of conflict; and the notion of intrinsic motivation fits in with management's own personal experience and their own motivational patterns rather than those of shopfloor workers (Guest and Fatchett, 1974). Neal and Robertson further suggest that the worker is fighting a battle that has long been decided in his favour, in reality he is dimly endeavouring to give expression to a whole new series of wants, that he may be quite unaware of, but are nonetheless real for all that (Neal and Robertson, 1968). The advocates of this approach (intrinsic motivation) called for the redesign of jobs (job enrichment, job enlargement) and even sometimes the organisation of work flows to fit the workers' need for autonomy, responsibility and control.

More recently, Schein (1970) has suggested the notion of "complex man", according to which man's nature can change from one situation to another and from time to time. He can acquire new needs and motives through his experience with organisations. The employee can respond to many different managerial strategies depending on his own motives, ability and the nature of his job.

Schein stresses the importance of managers' sensitivity and diagnostic ability to be able to sense and appreciate the differences. Moreover, instead of considering the existence of difference as painful, a manager must learn how to analyse conflicts and to value the diagnostic process which reveals differences. In the meantime he should be flexible in

dealing with his subordinates (Ibid).

It is clear then that management theorists in the Western industrial world have put forward a range of approaches and techniques to cope with the problems of gaining the cooperation of labour. During the early days of industrialisation processes an industrial workforce has to be disciplined and committed to the industrial life. The growing size of the industrial establishment and the requirements of new technology taken together with the severe competition in the product markets added new dimensions to the problem. Yet the same factors which require a disciplined workforce have - at the same time - had a very damaging impact on the workers themselves. On other words, industrial relations problems have become more complicated with increasing size of establishment and specialisation of labour. Managements have been faced with an increased questioning of their authority as a group within society. What was perceived to have been needed was a technique and ideology which could create a new basis for compliance to management's authority. In the past several assumptions about the nature of man have been applied, ie economic man, social man and more recently, self-actualising man. Each of these had theories about the basis of employees' compliance to management authority and had its own limitations to which attention has been drawn by many studies. Yet all are still providing an ideology for management and the appearance of one did not erase the preceding one, although each may be seen as a historical stage in a sequential order.

"In the literature they are viewed as being sequential in that one tends to follow from the other whilst this may be true of their emergence, it does not demise of the old. Nevertheless, whilst the technical application of each perspective might not be time-constrained, the emergence of a particular perspective and its legitimatory function would appear to be closely related." (Guest and Fatchett, 1974, p 65).

In the 1970s participation became spoken of as the new managerial ideology in industrial Western countries. Historically, the demand for participation has a long history as an ideology of worker protest. Now it is from the top of the organisational hierarchy. However, that does not mean that the desire of management and workers for more participation stems from identical sources or even that there is an agreement on what form it should be implemented. A distinction often made is that between indirect or representative forms of participation and direct or small group involvement (Loveridge, 1979). Guest and Fatchett pointed out that historically the demand for indirect forms of participation has come from the employees, while management is in favour of direct forms of participation (Guest and Fatchett, 1974). On the other hand, Anthony has recently distinguished between two current managerial approaches which have replaced "the less effective appeal based on capitalist self-help premises" (Anthony, 1977, p 239). In the first approach are Argyris, Herzberg and other behaviouralists concerned largely with the psychology of the individual. Their work demands that tasks should be changed so that workers' potential for cooperative effort can be released. The second approach is more directly concerned with relationships of authority in the total organisation and with mechanisms of constitutional control; it is more frequently referred to as concerned to establish constitutional means for employee participation.

So management have attempted both means of worker participation as a new technique to attempt to ensure workers' compliance and to place its authority on a basis of moral involvement instead of calculative and coercive involvement. Anthony has explained the main advantages behind the management demand for moral involvement as follows: firstly it will help in achieving normative compliance of employees,

which from management's view will pre-empt opposition which otherwise would be costly to overcome. Secondly, normative compliance is important to members of management personally and what is appropriate motivation for themselves seems appropriate for subordinates. Thirdly, it is designed to show that power has been redistributed in order to legitimate their own positions (Ibid). Anthony has pointed out that the demand for participation - from the management side - is to influence the workers and to persuade them to accept management decisions, decisions which have, he suggests, often already been taken. French, distinguishes between objective and psychological kinds of participation (French, 1964). According to him the "psychological participation" which management desires is "the extent of influence on a jointly made decision which the participant thinks he had". "Objective participation" he defines as "the amount of influence on the decision which he actually has". French, also noticed that management will tend to reduce objective participation to a minimum while increasing psychological participation. But Tannenbaum has argued that giving employees more control in industrial organisation will increase the total control of the organisation and will make management authority and control more absolute. Also, it will create committed workers to the establishment goals (Tannenbaum et al, 1974).

Etzioni points out that compliance is based on two bases: the structural aspect which he related to the power and authority structure in the organisation; motivational aspect which expressed in the kind of involvement that the individual has with his organisation (Etzioni, 1965). He differentiated between three kinds of power according to the means which may be used to ensure lower participants compliance: coercive, remunerative and normative. He derives a matrix indicating

relationships between these three kinds of power (coercive, remunerative and normative) and three kinds of employee involvement (alienative, calculative and moral). He concluded that the relationships between the three kinds of power and three kinds of involvement are congruent in the three cases, ie coercive power with alienative involvement; remunerative power with calculative involvement; and normative power with moral involvement. If Etzioni typology are used as a criterion to judge different management ideologies and techniques - as a means to ensure workers' compliance - it becomes apparent that coercive and remunerative power have failed to achieve the degree of normative control often sought after by management.

Clarke et al, in their studies of worker participation in Britain, conclude that there has been increased demand for more worker participation for four main reasons, viz: (Clarke et al, 1972)

1. as a means of promoting the satisfaction and personal development of the individual worker
2. as a means of improving industrial relations
3. as a means of increasing productivity (efficiency)
4. as a means of extending industrial democracy.

The demand for participation is seen as improving the quality of the employee's life on the job, by helping to humanise it. When an employee has more control over his job and its environment he will be more satisfied with it: "they ... find in participation an important source of gratification ..." (Tannenbaum, 1966, p 98), "far up on the list of factors making satisfaction in work is ... and decision making power on the job ..." (Blumberg, 1968, p 119).

In addition, the demand for participation perhaps rests on a belief

that by giving the workforce more control over their environment the major causes of alienation will be reduced, and that this will bring more favourable attitudes between management and workers (Guest and Fatchett, 1974) which in turn will increase efficiency and productivity. Walker enumerates the precise reasons behind increase in productivity as follows: (Walker, 1972)

1. Workers have ideas which can be useful
2. Effective communications upwards are essential to sound decision making at the top
3. Workers will accept decisions better if they participate in them
4. Workers will work harder if they share in decisions that affect them
5. Workers will work more intelligently if, through participation in decision making, they are better informed about the reasons for and the intensions of decisions
6. Workers' participation will foster more cooperative attitudes among workers and management, thus raising efficiency by improving teamwork and reducing the loss of efficiency arising from industrial disputes.

Worker participation is most often seen as possible in industrialised Western countries where the trade unions are "reformist" and "responsible". It is seen as desirable because within the widely accepted pluralist conception of government in Western societies it can reconcile divergent interests and increase efficiency by reducing conflict and reducing worker alienation and giving labour dignity.

"The philosophical basis of 'workers' participation' has not been very varied in the different countries of the west ... Generally there are four propositions which are advanced to underpin this policy ... it is essential to redress the balance of divergent interests in the existing social order ... it is ... an expression of human rights ... it is to serve man's psychological needs ... and that workers' participation is essential for efficiency ..." (Mapolu, 1976, p 191).

The concept of participation has a long history - as explained earlier - but recently the arguments for more participation have illustrated a greater variety of motivation and sophistication than heretofore (eg Tannenbaum, 1966; Clarke et al, 1972; Walker, 1972; Guest and Fatchett, 1974; Wall and Lischeron, 1977). Over the last two decades there appears to be a growing demand for worker participation from the governments, trade unions, and management (Wall and Lischeron, 1977). The forms that each of these parties wish it to take tend to differ considerably. The variety of views expressed by the members of the Bullock Committee demonstrate just this point (Bullock Report, 1977). Loveridge summarised and classified the main arguments for greater participation under four headings as follows:

"The enfranchisement of workers into some form of industrial citizenship; the reduction of conflict between labour and capital; the increased effectiveness in the use of plant and equipment; and improved worker job satisfaction and a growing sense of individual self-awareness in the work role." (Loveridge, 1976, Abstract).

The term itself has been discussed by people of many different disciplines as has been suggested by Balfour (1973):

"Industrial participation is a meeting ground for many disciplines, politicians of right and left, as diverse as General de Gaulle and Marshall Tito, find it in echoes of their particular views; economists hope that it will help to raise productivity, enhance morale and reduce strikes; sociologists and psychologists have probed at different levels in search of the answers to 'alienation', 'job satisfaction', 'authority and decision making',

lawyers are interested in the effects of workers councils on the structure of authority, control and ultimate responsibility." (Balfour, 1973, p 6).

Running through these great variety of definitions, it is noticeable that they vary from the most diffuse to the most specific prescriptions for employees' participation (Loveridge, 1979). Although these definitions agreed upon the idea that participation occurred between management and workers or their representatives to allow the latter to take part in managerial decision making, the basis or the main essence of participation is varied. Even so there were no precise definitions of scope, degree and extent of employees involvement in decision making.

Participation may vary, in practice, according to its scope, degree and extent (Walker, 1972). The scope of participation refers to the range of managerial decisions in which workers take part. Globerson stated that "a hierarchy of topics could be traced from a minimum to a maximum level - ranging from the lower level of subjects referring generally to items of direct concern to employees, and processing up towards items that are generally considered within management prerogatives." (Globerson, 1970, p 258). Poole, too, indicated that there is a range of decision making from technical 'on the job' problems to questions covering welfare and safety, commercial and economic issues (Poole, 1975). Walker distinguishes between four forms of decisions: ownership, government of the enterprise, the process of management, and terms and conditions of employment (Walker, 1972). Guest and Fatchett differentiated between legislative and executive decisions (Guest and Fatchett, 1974).

Also, participation may vary according to degree of influence that employees have on managerial decisions. This is ranged from employees' right to receive information (complete unilateral control by management)

to employees' right to make decisions (complete unilateral control by workers)(Walker, 1972). Globerson distinguishes between five types of participation: general information, joint consultation, passive participation in management, active participation in management, and self-management. In other words, worker participation may range from the right to be informed through management selling the decision to them or by contrast the employees make 100 per cent responsibility for the decision.

Many writers have discussed the structure of participation. Walker differentiated between two forms of participation: ascending participation and descending participation. The former applies when workers have the opportunity to influence managerial decisions at higher levels through their representatives, while the latter occurs when workers have the power to make a decision about their own work (Walker, 1972). Blumberg distinguished between cooperation (lower level of participation) and codetermination (higher level of participation). For him, the former occurs when workers influence decision making but are not responsible for it, while the latter exists when they control and are responsible for them (Blumberg, 1968).

The same perspective is found in Clarke et al (1972) who distinguish two types of participation which they called power and task control participation. Power centred participation occurs when workers take part in decision making through their elected representatives and aims at extending the bargaining power of the workers within the enterprise and at making managerial decision makers more accountable either to the union or directly to the workers. Task centred in their view happens when each employee can make decisions and exert control over his work, and this approach acts as a device likely to increase job satisfaction

and with it productivity, and also to improve industrial relations all of which will facilitate the achievement of managerial objectives.

A similar division between constitutional and technical or task related participation may be found in Guest and Fatchett (1974). They have adapted for their study the typology of Lammers (1967); direct and indirect participation. Direct participation happens when workers speak for themselves and participate personally in decision making, while indirect participation occurs when they share indirectly through their representatives. More recently Wall and Lischeron identified three levels of participation according to the point in the organisational hierarchy at which it operates: local, medium and distant participation (Wall and Lischeron, 1977). Local participation refers to those decisions which are relevant to the job itself and usually made by workers themselves, their immediate supervisors or jointly. Medium participation includes decisions which middle managers are responsible for and which have an effect on large numbers of employees, while distant participation refers to top decisions which may affect all of the organisation and usually fall within the authority of senior managers.

Conclusion

The above history demonstrates the persistence with which management theorists in the West have sought to provide employers with a means for them to achieve their objectives (mainly efficiency and maximisation of the profit) through guaranteeing employees' commitment and discipline. To achieve that, Western managers have sought after ideologies with which to legitimate a normative order. Participation is now seen to provide a solution by providing employees with a moral basis for involvement in work control. Management by applying such a concept is still aiming to achieve its objective of maximising profit and efficiency

though doing so through more employee involvement.

Yet the application of such techniques have been voluntarily rather than compulsorily imposed and by individual employers rather than by the government (Kerr et al, 1973). Employers, state and trade unions all share rule making power in a pluralistic system which does not allow the imposition of systems of this kind. This is the historical background for the emergence of participation in Western industrialised countries. However, the ideology of participation and industrial democracy has recently been extended to developing countries with command economies and through imposition by government.

The following chapter will highlight the main reasons behind applying such schemes in developing countries with command economies, and will illustrate the differences between industrialised and developing countries concerning the style of leadership, rule-making relationships and the participation concept.

CHAPTER FOUR

Participation as an Ideology for Developing Command Economies

The majority of the developing countries started on their way to industrialisation very recently, and mostly after attaining their independence from a colonial power.* Industrial democracy has gained currency as part of a wider ideology and a doctrine by which to govern and to achieve a new social order. Moreover, such an ideology is either accompanied by widespread communal ownership or state ownership as part of an economic plan introduced by the state rather than being of a voluntary nature.

The majority of these developing countries, particularly in Africa and Asia, although anti-capitalist, are also anti-communist. They suspect both systems and have tried their own new approach to industrialisation, for example Egypt with "Arab Socialism", Tanzania with "African Socialism", both of which can be described as a "mixed economies" (Shivji, 1978).

Techniques which have been created by the industrialised Western countries were introduced into totally different contexts of the developing countries. They were applied in a more overt manner than in the former ones and have had to be implemented by force. In introducing these techniques political elites in the developing countries have believed that they might save them from starting from the very beginning

* The majority of these countries have not experienced industrialisation in the incremental stages, like the UK for example, but rather jumped to catch up with the new technology.

and from trial and error experimentation. Their spokesmen often declare their desire to use such techniques for reducing employees' alienation, increasing their satisfaction, loyalty and commitment.

Questions which may arise are: what are the reasons behind the application of such techniques? Are they economically or politically oriented? Does the fact that they are imposed by the government guarantee their success? Does it suit the nature of the labour force there? Does it generally fit the structure of the authority and power relationship within these countries and with their industrial relations system? Can it complement the ideology of the command economy? Will participation, which was once recognised in the developed countries as a promising ideology, help in achieving the desire of the developing countries, which are may be identical with those of former countries? One can expect differences between developed and developing countries concerning objectives, background and application of participation as an ideology.

Unfortunately research studies are very few - even rare - in the area of developing countries. One has to admit the difficulties of this kind of research into the nature of new political regimes for many reasons. Aside from the nature of the research problem there is the gap in the literature about the nature of these political systems and the rule-making relationships within them. The instability of such systems puts limitations on scholars who endeavour to study their workings. The difficulties in getting access to necessary data from these new political systems stem from the fact that, because of political reasons, such data are never published. More substantively the fact that no clear doctrine of management has emerged yet means that governments switch from one concept to another according to short term needs and pressures. Hence a focus on one simple technique

may result in frustration after its short lived application without necessarily disproving its utility over a longer period in more favourable circumstances.

Kerr et al have argued that leadership in industrialisation processes throughout the world may be divided into five categories (Kerr et al, 1973). According to them, the elites who lead industrialisation processes are: the middle class, the dynastic leaders, the colonial administrators, the revolutionary intellectuals, and nationalist leaders.

"Each of these elite groups has a strategy by which seeks to order the surrounding society in a consistent fashion. This strategic perspective, if the society is to end up with a cultural consistency, must pervade the entire culture ... otherwise there is internal tension, conflict, and restlessness." (Kerr et al, 1973, p 59).

So, in order to understand the nature of authority relationship in society in general, and in industrial organisation in particular, one has to try first to understand the nature and behaviour of elite groups and their strategies.

"Management types, protest forms, labour organization typologies, rule-making relationship, taken as individual phenomena may appear largely unrelated to each other ... but they are all bound more or less firmly together by an internally consistent theme, as set by these five alternative approaches to industrialization." (Ibid, p 60).

As far as the nationalist leaders are concerned, they are the symbol of the independence movement charismatically harnessing the new patriotic zeal to industrialise the state in a command economy (Ibid). In other words, their main strategy is built around patriotic zeal and all the political and economic activity has to be organised in a way to achieve

it. The state has to guide the industrialisation.*

"This tends to lead to the planned economy, to state or state sponsored investment, to state-controlled labour organization, to workers dependent on the state for economic benefits and political direction, to state guidance of the new industrialists, to state appeals for hard work and saving, and to a call for unity." (Ibid, p 75).

For a nationalist elite, the worker is seen as a "patriot" and it is his duty to serve a national purpose. However, national appeal and different incentives may be used to ensure their commitment and to motivate them (Ibid). In the meantime, the rule-making is mainly in the state's hands and, therefore, conflict is prohibited, and controlled or suppressed.

Kerr et al found that the elites are different from one another in terms of the economic and social systems they create and even the stage of industrialisation or its starting time (Ibid). If one can accept the existence of such differences why then do nationalist leaders adopt industrial democracy and participation ideologies and even impose them by statute. A close look at the social backgrounds of nationalist leaders and even the stage of industrialisation process at which they gain power leads one to find the application of such schemes rather difficult to explain. Such schemes have been introduced in developed countries at an advanced stage in their industrialisation process and completely different in their social and economic systems.

There is an explanation for nationalist leaders' desire to apply such schemes. The explanation lies in the political objectives and in the behaviour of political leaders themselves.

* Although the nationalist may rely more on the state as a vehicle to achieve their main objectives, but it is different from revolutionary groups as Kerr et al point out. The existence of a private sector in the nationalist context is not surprising. For more detail see Kerr et al, 1973.

"The behaviour of political elites is often of primary importance, particularly as this relates to the twin problems of legitimacy and control ..." (Dekmejian, 1972, p 2).

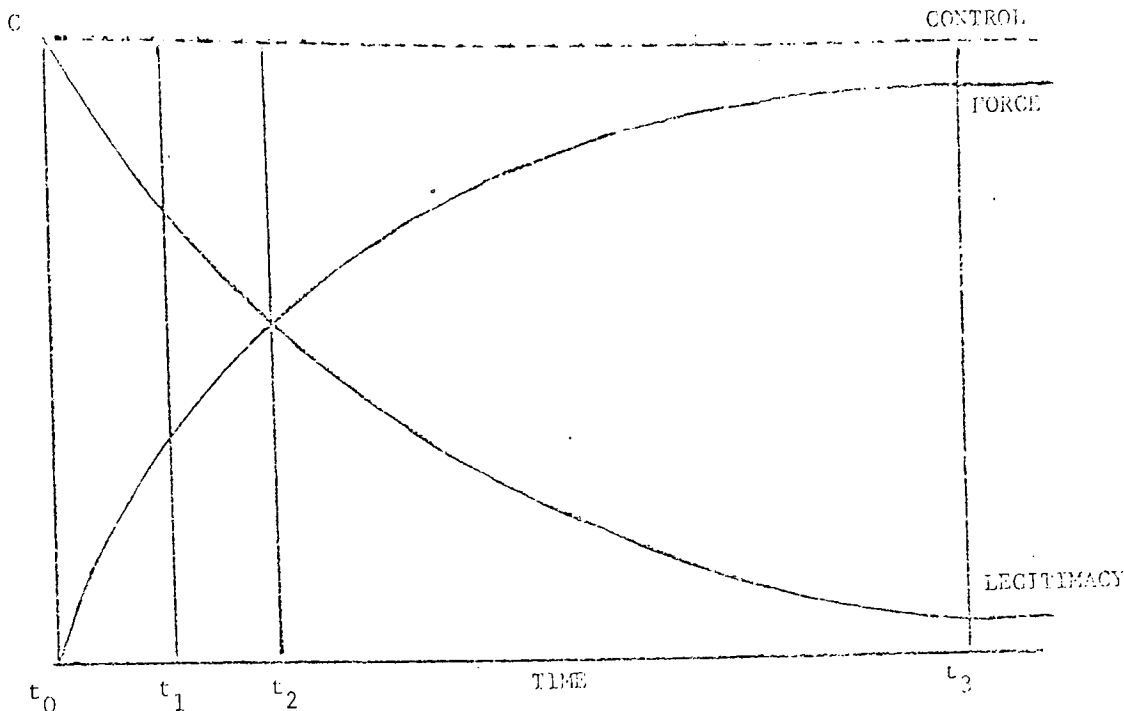
Dahl has argued that once the leaders are in power they will strive for legitimacy for their rule. Their rule has to be accepted by the masses in order for the leader to be secure in his authority. The political leader tries to convert this rule of naked force into that of constitutional authority in order to gain greater efficiency, durability and reliability (Dahl, 1976). The higher the degree of legitimacy, the easier it is for the leader to maintain control without frequent resort to force. Recently, Dekmejian has proposed that at a given moment the leadership's control is a function of two interdependent variables: force and legitimacy (Dekmejian, 1972).

$$\text{Control (C)} = \text{Force (F)} + \text{Legitimacy (L)}^*$$

The author has argued that in developed countries where elite ideologies, institutions, and processes are institutionalised over a comparatively long period of political development the fluctuations of legitimacy and force are not likely to be of any marked proportion. On the other hand, in developing countries, the frequency, magnitude, and consequences of a reduction of political group legitimacy are relatively great due to multilateral weaknesses of the newly-introduced ideologies, institutions, and processes which themselves do not possess the reinforcement of legitimacy (Ibid).

Nevertheless, the kind of authority which will be followed by the new nationalist leader to legitimate his position, as Dekmejian has

* F, L are independent variables while C is a constant, Figures 4.1 and 4.2 (over page) show this relationship in the case of control based on force, and based on legitimacy.



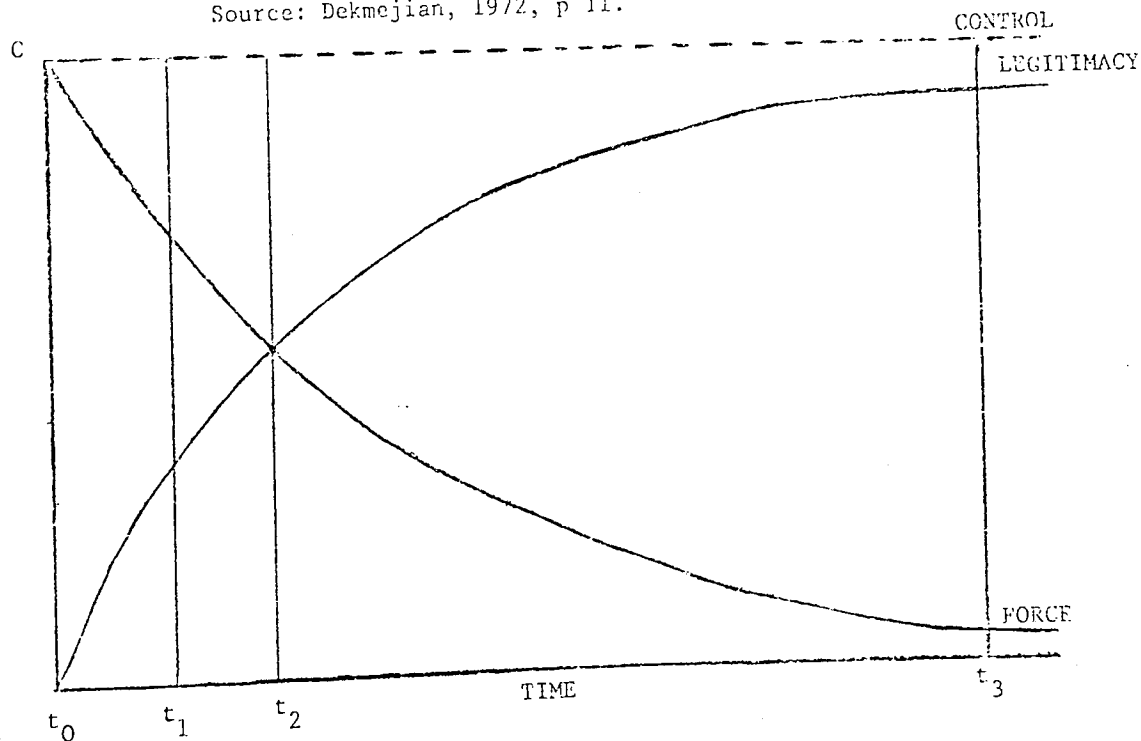
Where t_0 is time of independence

At t_0 , $C = L, F = 0$.

* Realistically "0" can never be reached.

Figure 4.1 - Control Based on Increasing Force

Source: Dekmejian, 1972, p 11.



Where t_0 is time of coup

At t_0 , $C = F$, and $L = 0$

* Realistically "0" can never be reached.

Figure 4.2 - Control Based on Increasing Legitimacy

Source: Dekmejian, 1972, p 12.

argued, is determined by his relationship to "the prevailing ideological milieu" (Ibid, p 3). Max Weber differentiated between three kinds of authority and legitimation: traditional authority which prevails in a traditional society and is justified by norms and practices, and in that case the leader has to seek legitimacy by associating with the prevailing norms and practices and value system; authority which is exercised by virtue of rule, and laws in accordance with certain shared, rational rules and laws, so a leader must adhere strictly to the ideological maxims that govern the system; "charismatic authority" when the leader will oppose the previous two types of authority, in this case he has to legitimise his rule by charismatic authority (Weber, 1947).

In reality, the first task confronting a revolutionary junta is to legitimise its authority. Although it might initially depend upon some kind of traditional relationship,* yet it cannot remain so since it has raised revolutionary aspirations among its followers which have to be met if it is to justify its being. Neither can it rely upon established institutions since its announced aims are to change and reform these institutions. Consequently, there is a great need for "charismatic authority" in order to gain the widest possible popular acceptance. The greater the acceptance,** the more the authority, and the less use of force or coercion is required in maintaining social order.

* In Egypt, for example, General M Nagib was appointed President immediately after the revolution in 1952 to ensure the army's loyalty to the new regime and according to the traditional system of authority.

** And more recently, for example, President Sadat of Egypt tried a new way to increase the mass acceptance built on the traditional kind of authority. He called the Egyptian society one big family and he was the father and, therefore, he had all the rights of authority.

Charisma, as other social phenomena, has been given many different meanings and been subject to many interpretations by many scholars (Dekmejian, 1972). Some argue for the importance of the psychological aspect of charismatic authority, others are in favour of social aspects. On balance those who view charismatic authority as a relationship between leader and mass rather than a personal attribute of the leader himself are historically more evident (Ibid). If we believe that charisma is only a gift of grace, it does not explain why the masses will accept the authority of a leader or a leader who might be said to have this gift and distinguished personality.

Dekmejian has developed a "historical empirical framework" of charismatic leadership and its interacting factors - which can serve to classify and identify the leaders of new developing countries in Africa and Asia in particular. According to his framework, interacting factors which contribute to developing charismatic authority have been arranged in a developmental cycle as follows:

1. Society in Crises (Turmoil): which is characterised by the pathological response of society to a breakdown of the existing mechanisms of conflict resolution. In other words, society is unable to resolve conflict producing "irrational schizophrenic" attitudes leading to psychological dependence and heightened expectation and turmoil.
2. The charismatic interaction and the appearance of an exemplary personage without whom charismatic leadership cannot begin. However, the writer argued that the process cannot be initiated without turmoil. Both these two prerequisites will evoke generation of the charismatic process. This process will depend

on a number of other intervening variables. The leader's performance, his message, his personal qualities, and the opportunity to propagate both. Performance should be seen as exemplary, extraordinary and heroic by the leader's own society. The message should be radical to resolve the crisis. The personal qualities of the leader should include rhetorical abilities and he should have access to the mass media.

"The accompanying message typically contains a bold prescription to remedy the prevailing crises situation ... as well as a utopian promise for the future ... it also includes values and modes of behaviour significantly different from those in practice ... Finally the leader - follower interaction may be aborted if the leader is denied the opportunity to propagate and perform ... often this is accomplished through the skilful use of the mass media ..." (Dekmejian, 1972, pp 5-6).

3. Value - Transformation: The leader can now start to transform the values of society on the basis of the acquired legitimacy, leading in turn to a further consolidation of his charismatic authority and enabling him finally to adopt the appearance of legal rational authority. The writer argues that when the masses accept the leader's new values, policies, and strategies, then a highly spiritual link had developed between the political leader and the people, which will later appear in the guise of legal, rational types of authority.
4. Routinisation: The author uses this term to describe the leader's attempts to establish the new order; the remedy which will be legitimated on the basis of the leader's charismatic authority.

"Whatever the leader proposes will find general acceptance and legitimacy" (Ibid, p 7).

This process should be attempted when the leader's authority and charismatic leadership is at its highest in order to ensure later stability, through the creation of structures that are likely to survive his death or in the weakening of his charismatic authority. So, effective routinisation may require a readjustment on the leader's part. That requires - through new forms of socialising forces - increasing the number of people involved in decision making as well as the intensity of their involvement. The charismatic leader gives a dignity and sense of community which, however, in the long term has to be reinforced by material advances as well; transforming a national movement into a party and a party into the state.

So, the leader's authority which was once charismatic, demands transition to a system increasingly reliant upon legal means of legitimacy, and his power will be depersonalised within a bureaucratic framework. In the following Figure 4.3 Dekmejian attempts to apply this framework in the context of Egypt under Nasser's rule.

The staged processes typified in Figure 4.3 can be applied to the accession of leaderships of Nasser in Egypt. The importance of the subsequent routinisation process and legitimisation of the new order (the promises) is examined in subsequent chapters of this thesis. It is not enough that the elite had already gained power, but the core of their problem is how to ~~stay~~ stay there and on what basis.

Therefore, the subsequent phase is that of fulfilling the



1922-1952 Phase I Society in Crisis (Pre-Revolutionary) Control=Traditional+Legal Legitimacy+Force (max)	1952-1955 Phase II Society in Crisis (Post-Revolutionary) Acquisition of Power through Force (max)	1955-1951 Phase III The Charismatic Interaction Control=Initial Charismatic Legitimacy+Force	1957-1961 Phase IV Value Transformation Control=Charismatic Legitimacy +Force (min)	1961-1970 Phase V Legitimation of the New Order Control=Traditional+ Legal+Charismatic Legitimacy+Force (min)
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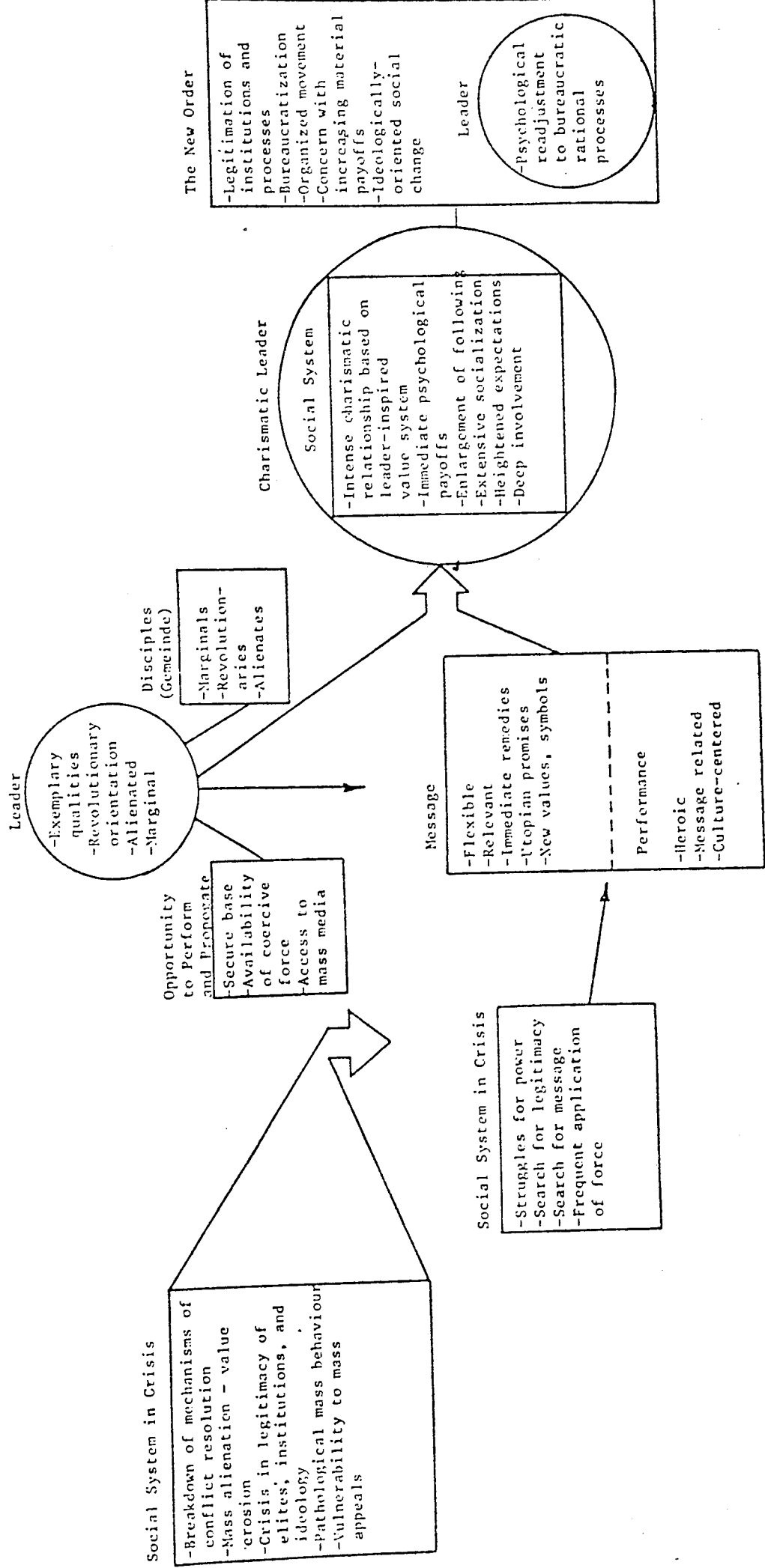


Figure 4.3 - The Charismatic Process

revolutionary objectives and promises to their supporters in order to gain acceptance for industrialisation of the country and meeting the varied objectives of formerly aggrieved groups. The new elite has to start the transformation process from being destroyers of the old systems to being builders of the new. Often the nationalistic radicals have sought their support across all classes and groups. When Issa G Shivji was studying class struggle in Tanzania he found that the political leaders there (whom he referred to as a bureaucratic bourgeoisie) adopted a nationalistic outlook as a very important feature of their legitimating ideology (Shivji, 1978). But on achieving power nationalist elites tend to proceed by way of socialistic centralism. President Nyerere of Tanzania, perhaps, made this view more explicit when he stated that:

"... We decided to secure majority ownership in these industries (private enterprises) because they are key points in our economy, and because we believe that they therefore be under the control of Tanzania. Our purpose was thus primarily a nationalist purpose: it was an extension of the political control ... whatever economic system the peoples of different African countries eventually adopt, it is quite certain that sooner or later they will demand that the key positions of their economy are in the hands of their own citizen ..." (as quoted by Shivji, 1978, p 76).

Nationalisation may be considered as a method whereby the charismatic leader obtains support for his authority by paying off the mass who shared in the revolution, and upon them and their acceptance the new regime relies heavily (Ibid).

However, another reason may justify nationalisation as an outlook for the political elite. Benjamin Watkins Leigh (the nineteenth century Virginia statesman) declared that:

"Power and property may be separated for a time by force or fraud but divorced never. For so soon as the pang of separation is felt ... property will purchase power, or power will take over property. And either way, there must be an end to free government" (as quoted by Shivji, 1978, p 66).

Therefore, the new political regime in developing countries always seeks for acquisition of property in order to maintain its power over the society. The same happened in Egypt and Tanzania, where the political leaders in both countries tried first to co-operate with private capital by applying open market policies and co-operative forms of investment. However, they failed to achieve it. That led to the further step of Africanisation in Tanzania and Egyptianisation in Egypt directed to the imposition of more control on private capital. Later both governments had to nationalise most economic activities to guarantee and restore their power over the economy and to eliminate the pressure of other groups on them (Badawi, 1973; Shivji, 1978). Both sets of leaders recognised the importance of extending the state to include the economic aspect of their society besides the political one.

The developing countries in the third world tend to be a one party states, voting on tribal lines with the antagonisms and expectations of divergent ethnic groups. Consequently, party politics have tended to be regarded as additional sources of instability. A command economy has the political virtue of keeping the country together, the one party system defusing tribal antagonisms. This is reinforced by the ideological predisposition of the radical intellectuals who regard socialism as the logical extension of anti-colonialism. The nationalisation of industry for nationalistic reasons was therefore connected with the need to homogenise cultures and normative systems within fragmented ethnic groups and to bring about economic improvement for the mass of the people.

However, there are many other justifications for nationalisation in a command economy. In developing countries the government is the most important if not the only source of investment willing and relatively able to assume the heavy burden of the industrialisation process. For this very reason no plans for economic transformation can be realised without massive intervention of the state and its administrative apparatus. These countries cannot rely solely on the risk taking propensities of the private entrepreneur. There are areas where the return on capital is not attractive to the private investor, or where the size of the investment is so enormous that only the government can undertake it (Badran, 1974). Also, there is the need to control commodity markets, where the main source of external revenues is generally a primary commodity. To maximise and stabilise national income against the widely fluctuating and speculative prices these commodities command on the world market is often difficult to do without external trading agreements.

4.1 Government Participation as a Leadership Strategy

Going side by side, particularly with the nationalisation of main activities, the role of trade unions and labour organisations has to be changed and reoriented to reinforce political control and to guarantee the elimination of conflict. The role of trade unions in the Western industrialised societies, even with restrictions in some of them, is clearly that of one of the players in the rule making relationships, surrounding job regulation. As Galenson puts it "trade unions must be basically independent of the state and employer influence, or they cannot function as genuinely representative institutions" (Galenson, 1962, p 10).

In developing countries their role is different* (Henley, 1978). Trade unions have been transformed from the opposition to the private employers to the helpers of the political regime in maintaining the discipline and orientation of workers to goals of productive effectiveness. "Trade unions are regarded accordingly as administrative arms of the state, charged with the primary responsibility of maintaining discipline and furthering productivity" (Galenson, 1962, p 2). This fact can be seen clearly in the speech of President Nyerere when he opened the first annual congress of NUTA :

"The same people are members of the trade union and the political wing of labour movements. How then can these two wings be separate? We believe that the institutions of society must bring into harmony all the different interests of man, and we do not understand how it helps a worker if the trade union he belongs to regards itself as independent from and in conflict with, the political movement he himself helps to control." (as quoted by Shivji, 1978, p 77).

Even the revolutionary Junta in Egypt held the same view. The Ministers of Labour in Egypt have become the President of the Egyptian Trade Union Congress. The trade unions helped the regime in controlling the first known demonstration of students and workers in 1968 and after Nasser's defeat in 1967.

Political regimes in developing countries claim that the revolution took place for the sake of the workers and that the new regime and the state is the "people state" (Shivji, 1978). New regimes generally take measures to alleviate workers' hardships and stabilise their working

* It is beyond the study to go into detail about the trade union movement in developing countries, rather the main concern is to clarify its position in the rule-making authority relationships. For more detail see Galenson, 1962; Fahmy, 1974; and Henley 1979 & 1981.

conditions. Minimum wages legislation and security of employment acts, are normal as are limitations on working hours and laws of arbitrary dismissal. In return, the regime may expect the workers to make sacrifices; increase their efficiency and productivity which will lead to and contribute to the national development (Ibid). This concern for workers' satisfaction may be seen as designed to ensure that the workers will not rise as a "class" against the regime on the one hand, and to ensure their allegiance to the objectives of the new leadership on the other hand. There is also a concern with the need to dissolve workers' hostility to industrialisation and feelings of alienation from the bureaucratic framework that surrounds it. Participative schemes therefore play an important role in the transformation process because they fulfil so many of these politico-social functions.

Usually the explicit aims and objectives behind the application of participative schemes are connected with the workers' satisfaction (Fahmy, 1974). In addition, there is the belief that satisfaction will increase the workers' efficiency and productivity (Maseko, 1976). But aside from this desire to increase the worker's moral involvement in his work there is the need to extend this moral commitment to the regime. At the same time the workers' awareness of a charismatic national figure must be transferred to an awareness of the contribution made to national goals by his work organisation. In this sense the moral involvements of political followers have to become disengaged and routinised within the bureaucratic context of the workplace.

These ideas have been well expressed in the view of the political leaders of the developing countries, such as Nyerere:

"We ask the people to work hard, yet in modern factories each man and woman is doing only a very small part of the whole process of production. How can he really go on year in and year out taking a pride in that one job? .. often the worker does not even know where his task fits into the total scheme of things; he does not know what the factory as a whole is aiming at ... it is not sensible to expect people to be enthusiastic about their job under these circumstances ... I believe that when people have a clear target ... they will want to beat the target ... they will take pride in their factory exceeding its target with good quality output ... and they will realise that, as they do their work, they are making a positive contribution to the success of Tanzania's target ..." (Nyerere, 1976, pp 153-154).

So the typical argument is that given proper working conditions the worker will become more creative and produce more. But they are not just a factory of production; they ought to be treated as the very purpose of production not the means. In turn, discipline can be meaningful only when all involved know fully what, why and how participation is carried out (Mapolu, 1976).

Nationalisation and the creation of public enterprises are regarded as essential to the material foundations of the economic independence of developing countries. But the question of how management control systems inside this sector can reflect and not be against socialist values is a dilemma. Participation is usually seen by the elite as the solution to this problem.

"The decision to widen workers' participation ... is evidence of recognition of the fact that after nationalisation of economic assets there is need to ensure that their structure and management reflect socialist value ..." (Nyerere, 1976, p 161).

This argument has justification in developing countries - for a number of reasons: it equalises status between the workers and management in industrial organisations;* all may be regarded as workers belonging

* "For the first time workers and managers will be equal partners in industry" from Nyerere's speech in 1969 (as quoted by Fincham and Zulu, 1980, p 126).

to the same establishment and under the same employer (Maseko, 1976). It limits the area of management control and prevents them from being authoritarian; claiming that the manager must accept criticism from workers in his enterprise* (Nyerere, 1976). Furthermore, there is fear of the strength of management in the new bureaucratic organisation as a new social class. This new bourgeoisie might be dangerous to the political leaders themselves. The Egyptian Charter of Independence expressed awareness of this danger and that of the need to prevent bureaucrats from becoming an insulated class.**

The extension of participation to the industrial sector may have the ulterior aim of helping the political leader striving for legitimacy. Through claiming more involvement of the masses with the regime, the new leader can use the popularity so gained to strengthen his rule over the bureaucrats. He can also fulfil his promise to his socialist followers:

"... putting all the commanding heights of the economy in the hand of the people through state ownership" (Maseko, 1976, p 228).

"... to extend democracy to the public sector in order to enable the workers involved themselves in the developmental process of their enterprise" (Ibid. p 234).

At the same time, participation in a command economy may be viewed as one of the major techniques above all others in controlling the workforce and regulating discontent among them (Fincham and Zulu, 1980).

* In its extremest form, Nasser when he introduced participation, suggested that when a general manager wanted to buy a new car a worker representative on the board would prevent him from so doing.

** President Nasser predicted that during the transition period from capitalism to socialism, the bureaucrats would attempt to increase their power in order to become the decisive factor in economic production. (Speech at the opening session of the National Assembly in 1964).

"... perhaps for a long time to come workers' councils will continue to be, as the National Development Corporation say, 'one of the major incentives - above all other techniques in controlling the workers'" (Mapolu, 1976, p 224).

The application of participation, in developing countries, may therefore serve the function of ruling out the political fear of working class revolt. The workers' participation in running their establishments helps to reduce the possibility of loading the blame on the state for any failure in the productive system to deliver consumer goods. Such blame would naturally reflect derogatorily on the political regime itself.

"Although economic control has maximized the regime's power (referring to Egypt and Nasser), it has also bestowed upon it the sole responsibility for future economic breakdowns." (Dekmejian, 1972, p 132).

Dekmejian has argued that the Egyptian revolution was basically led by a middle class military/civilian elite (sic). It tried to enlarge its basis of class support by suggesting that "Arab socialism hopes to force everyone into the middle class ... and pushing up the workers and the peasants" (Ibid, p 293).

Conclusion

The above discussion elucidates some of the main motives behind the application of workers' participation in command economies. Countries under the rule of charismatic leadership also require the introduction of such an ideology which enables the routinisation of authority. The application is politically rather than economically motivated. Industrial relations tend to be a vehicle for putting into practice, in the industrial sphere, the government's philosophy of participatory democracy. In other words, the application of industrial democracy in developing countries is intended to eliminate workers' hostility and to increase

their loyalty and commitment to the new regime while encouraging co-operation between workers and management. All of which is supposed to contribute to increasing the national income and consequently the faith of the workforce in the political leaders.

Also, it is clear that such schemes have been introduced in situations differing radically from that of developed countries. The state is the big employer; the trade unions' role is changed to being an administrative arm for the new regime helping to discipline and direct its followers to productivity and efficiency. In this context worker participation also becomes an important means whereby the state can maintain a balance of countervailing forces on the wider society.

Unfortunately studies of developing areas are very few - and the evaluation of such participative schemes have not been rigorously carried out. The present study will try to fill this gap by studying and evaluating the Egyptian experience as a model for developing countries.

Discussion

This introductory part has demonstrated that although participation is called for by management theorists in both developed Western industrial countries and in developing socialist countries with a command economy, the nature of industrial relations systems are such as to defy comparison. Industrialisation affected a radical change in the society of Western societies. It had both detrimental and beneficial effects on the society, but the important point is that it invoked the necessity of regulating the relationship between labour and capital.

A number of ideologies evolved to justify the authority of management over labour, and to force and later to persuade the workers to accept such authority. One of the earliest of such ideologies was the Theory

of Dependence which justified the authority of the owners over the workers. This was built on the assumption that the worker had merely to work, all other responsibility was that of the owner. Then came the theory of Laissez-Faire and Self-Help which relieved the owner of total responsibility for the worker, while making labour rely on employment as the only means of sustenance. The doctrine of Paternalism or Dependence competed with this ethic as legitimating the authority relationship between owner of the capital and his worker. Throughout this period the workers' awareness of their collective position in the market grew until finally they established permanent trade unions. The fear of a workers' revolutionary action was one pressure for reform but other movements arose, some broadly humanitarian, others Christian or aesthetic in origin, condemning the injustice or ugliness of the factory system and calling for the reorganisation of the society which created it.

Employers began to look around for new concepts and techniques to ensure workers' co-operation and loyalty to their objectives. An example is Scientific Management which, however, was lacking in any acknowledgement of the human aspect of work. This was followed by the development of Human Relations Theories. By now management in industrialised society could not longer ignore the fact that workers' loyalty was divided and not merely directed towards company goals but towards external objectives of their own and that there might be a conflict between the objectives of the organisation and those of the workers and their unions. So nowadays the orientation of management theorists is towards minimising this conflict as much as possible.

Over the last decade or so the demand for participation in the West has come from all parties to the formal process of collective bargaining, even management itself. However, management's ulterior objectives are

often to lessen workers' affinity to the trade unions. But it must be noted that management still has the freedom of deciding whether to apply participation or not - except in those countries where the historical forces have led to its statutory enforcement such as Germany. In Britain when management decides to apply participation, it still has to consult trade unions and workers prior to implementation. Neither have demonstrated any great strength of commitment to the notion. Thus the concept of participation is capable of assuming many forms. Even where applied it retains a flexibility to suit the needs and desires of all those concerned.

This is the situation in developed societies; what then is the situation in developing countries? In fact, as has been illustrated from the previous discussion, the situation has differed radically from the one discussed above. The application of participation and industrial democracy is politically rather than economically motivated. The introduction of such schemes is always externally imposed by the ruling group and not internally as a response to the demands of the workers or their representatives or even the management of the industrial enterprises. These participative techniques are intended to be the chief vehicle of putting into practice in the industrial sphere the government's philosophy of participatory democracy, for instance, those of Egypt and Tanzania. Such schemes accompany nationalisation processes and the transfer of ownership and acts to synchronise also with a defined economic plan.

As suggested by Dekmejian (1972) the first task confronting a revolutionary junta is to legitimise its authority. Although it might initially depend upon some kind of traditional relationship, yet it cannot remain so since it has raised revolutionary aspirations among its followers which have to be met if it is to justify its being. Neither

can it rely upon established institutions since its announced aims are to change and reform these institutions. Consequently, the need for "charismatic leadership" is very great in order to gain the widest possible popular acceptance. The greater the acceptance, the more the authority, legitimacy, and the less use of force or coercion is required in maintaining social order. One of the most distinctive characteristics of charismatic authority that sets it apart from traditional or legal-rational types is the highly spiritual link that develops between the leader and populace.

So, the subsequent phase is that of fulfilling the revolutionary objectives and promises to the people: mainly the re-organisation of society, industrialisation and development, closing the gap between social strata; finally establishing the new order based on the short-term legitimacy derived from the charismatic leadership, all of which will simultaneously reinforce the regime's political control. Briefly the new regime has to start the transformation process: the revolutionary movement has to move from being destroyers of the old systems to being builders of the new.

Often, the regime claims that it is ensuring a classless society, thus ensuring also that no class or group would oppose it. So most of the economic activities are nationalised with only the very minimum of private ownership which is nonetheless under government control. Consequently, the capitalist bourgeoisie is supposedly eradicated. The role of the trade unions is restricted to serving the ends of political regime, and maintaining the discipline and orientation of workers to goals of productive effectiveness. As for the workers, the political regime claims that the revolution took place for their sake, and so it takes measures to alleviate their hardship, ie limiting work hours,

setting minimum wage standards. Striving for workers' satisfaction, this again is designed to ensure that they will not rise as a "class" against the regime.

As part of this attempt to dissolve workers' hostility to industrialisation and their feelings of alienation the political regime introduces participative schemes. These have multi-lateral functions. They minimise the feeling of hostility and alienation, they rule out the political fear of working class revolt, and perhaps of equal if not more significance is that the workers' participation in running their establishments helps to reduce the possibility of loading the blame for any economic failure on the state. Such blame would naturally reflect derogatorily on the political regime itself.

Thus the introduction of industrial democracy in developing countries is intended to reduce workers' hostility and to increase their loyalty and commitment to the new regime while encouraging co-operation between workers and management. All of which is supposed to contribute to increasing the national income and consequently the faith of the workforce in the political regime.

This contrasts with participation in developed capitalist countries where it tends to be generated internally from management. They endeavour to reduce workers' loyalty to trade unions and to direct it to the establishment itself. Moreover, participation occurs in a flexible environment. On the other hand, in command economies, participation is initiated by the state and the political regime which, while transferring workers' loyalty to the economic establishment yet ultimately leads back to the success of the regime. Furthermore, the whole system operates in a fixed and inflexible environment; the roles of all its components being predetermined.

So, the following study of Egypt as a model of developing countries is of a radically different nature developed within completely divergent circumstances, impulses and motivation from those present in Western capitalism. Studies have been made by many scholars in the subject of the schemes in the latter countries, of their successes or failure, but there are very few studies which have been concerned with this aspect in command economy countries. Egypt has been selected on this particular study for the following reasons:

1. It represents a model for developing countries with command economies.
2. It has enforced the scheme since 1961, so the duration of application is sufficient to judge its results.
3. It can be used as a model for other African and Middle Eastern countries.
4. The researcher is Egyptian, has first hand experience of the scheme and access to information and has performed a field study.

PART TWO

PROFIT SHARING SCHEMES : THEORETICAL REVIEW

CHAPTER FIVE

Profit Sharing Schemes : Theoretical Review - Western Countries

Introduction:

This chapter is divided into three sections: Section One deals with the definition of profit sharing, from what is believed to be the first known definition to other definitions which later built on it. Particular reference is made to the UK and the USA in which voluntary profit sharing systems have a long history. By tracing the development of formal definition of profit sharing we will attempt to demonstrate the extent to which agreement existed over the central issues involved in the adoption of such schemes.

Section Two deals with the historical development of the profit sharing movement from early schemes to the present date. This will first attempt to trace the periodicity in the use of the system. Secondly, it will deal with the question whether such use developed steadily and, if not, whether there were periods of discontinuance and reasons for that phenomenon. This historical survey will clarify the nature and development of the profit sharing movement as a control system and as an ideology.

Section Three is devoted to a brief description of various techniques and operational aspects of profit sharing schemes.

5.1 Profit Sharing : Its Definition

Up to the present date there is no single definition agreed upon for profit sharing. Definitions differ from time to time and from one country to another. This variation has affected statistics of the incidence of profit sharing and its geographical distribution.

Numerous authors have defined profit sharing in their works,

but a large number of them have relied on the definitions present in official studies, while others have augmented the definitions to suit their own points of view and aims in writing on the subject. Consequently, we will limit ourselves to the definitions of official studies of profit sharing, in order to avoid repetition, and because these definitions are the prevalent ones in the USA and the UK.

As far back as 1889, a definition of profit sharing was formulated at an International Co-operative Congress on profit sharing held in Paris in the following terms:

"The International Congress is of opinion that the agreement freely entered into, by which the employee receives a share, fixed in advance, of the profits, in harmony with equity and with the essential principles underlying all legislation" (as quoted by Cooper, 1963, p 487).

This definition was endorsed by several other International Co-operative Congresses eg 1897; 1900. The report of the special committee, which was formed by the 1897 Congress to find out the exact meaning of profit sharing, explained and threw light on the definition as follows:

"With respect to the 'agreement' ..., the Committee considers that, while an agreement binding in law is the normal form, they do not exclude cases in which the agreement has only a moral obligation, provided that this agreement is, in fact, honourably carried out." (as quoted by Board of Trade, Labour Department, 1912, p 7).

"By a 'share' in profit is meant a sum paid to an employee, in addition to his wages, out of the profits, the amount of which is dependent on the amount of these profits" (Ibid)

"With respect to the 'profits' a share in which is, under a profit sharing scheme, allotted to the employees, these profit are, in the opinion of the Committee, to be understood as the actual net balance of gain realised by the financial operations of the undertaking in relation to which the scheme exists" (Ibid)

"The money to be received by the employee under profit sharing is to be received by him strictly as an employee, ie, in consideration of the work done by him" (Ibid)

"The share shall be 'fixed in advance' ..., however, it is not necessary that the employees shall know all the details of the basis upon which the amount of their share is fixed. ... on the other hand, if the share given to the employees is indeterminate

ie, if the employer at the end of the year determines whether he shall give one-tenth or one-fifth, or some other fraction of his profits, to his employees, at his absolute discretion and not upon any pre-arranged basis - this is not profit sharing" (Ibid, p 8).

On the question of whether the shares should be distributed among the employees according to some fixed manner or according to the employer's idea of the employee's merit, the Committee indicated that:

"In strictness, cases of the latter type might well be held not to fulfil our definition; but the Committee, on careful consideration, are not prepared to declare such cases inadmissible as instances of profit sharing, provided that in any event the whole of the employees' share be distributed among all or some of the employees, except such as shall have forfeited their share by failure to comply with precise reasonable conditions of participation, but so that in no case shall any part go back to the employer" (Ibid, p 8).

Also, the Committee pointed out that all employees should share in the distribution:

"If the distribution be confined to managers, foremen, and leading hands, or to any of such classes of employees, this, in the opinion of the Committee, is not profit sharing. A profit sharing distribution may exclude persons who are not adults, or who have not been in the service of the employers for some reasonable qualifying period, but must, in order to come within the definition of profit sharing, include in any case a large proportion, which the Committee consider should not be less than 75 per cent of the total number of the adult employees who have been in the service of the employer for at least one year." (Ibid, p 8).

From a study of this definition a number of observations can be made:

1. The profit sharing agreement does not have to be in written form as long as it is honourably carried out.
2. The employees' share must be in accordance with the profits achieved, and is separate from their wages.
3. The profit in which employees share is the net outcome of the business after expenditure.
4. The person who gets a share of the profits must be an employee.
5. The share must be fixed in advance and on a pre-arranged basis.

6. The basis of profit sharing distribution among employees is that it be carried out in a fixed manner. However, the employer may distribute profit according to merit but on condition that the employer gets none of it.

7. Profit distribution should be applied on not less than 75 per cent of the adult employees in the firm who have served for not less than one year.

The above definition which has prevailed for the past 100 years, has in fact received general adherence in the practice of profit sharing throughout the World. Later definitions differ in scope but not in principle.

Many writers have examined it, either to explain or to criticise it. For example Jehring, one of the leading figures in the subject, pointed out that the definition carries both moral and calculative implications (Jehring, 1968). He suggests that Congress agreed on the following points:

- a) Profit sharing was a moral idea because the terms "equity" and "essential principles of positive law" were used.
- b) Incentives were an inherent factor. The share was received by the employee "not as a gift" but "in consideration of work done".
- c) The idea of total group motivation was present because "all" employees were to share.

Some other writers criticised the Congress definition. For example, Narasimhan in his study criticised it for excluding compulsory profit sharing schemes, as well as schemes under which the workers are granted regularly a share in the profits which will be distributed on a basis which varies from time to time and decided by an independent authority such as an industrial court or tribunal* (Narasimhan, 1950).

* Narasimhan, noticed that a number of industrial tribunals in India have awarded the workers a share in the net profits of the industry in which they are employed.

Notwithstanding the criticisms launched at the 1889 definition, all official studies on the subject have basically returned to it. In the UK, a report on profit sharing and labour co-partnership in the United Kingdom by the Labour Department of the Board of Trade in 1912, broadened the International Congress definition of 1889 to include the cases of the company issuing shares to its workers. The amendment includes the case of a company which makes special arrangements by which it receives, by way of a loan from its employees, sums entitled to a rate of interest varying with the profits (Board of Trade, Labour Department, 1912).

More generally the above report (1912) says:

"Profit sharing has accordingly been used as applying to those cases in which an employer agrees with his employees that they shall receive, in partial remuneration of their labour, and in addition to their wages, a share, fixed beforehand, in the profits realised by the undertaking to which the profit sharing scheme relates." (Board of Trade, Labour Department, 1912, pp 8-9).

It may be remarked that the above definition was more restricted than that of 1889. Although the mentioned exceptional cases, were mentioned, it was seen to be necessary for profit sharing to be in the form of a written agreement. Wallace comments that this definition had to satisfy the following criteria:

- "a. There must be some binding agreement, as distinct from mere bounty. Christmas boxes, however generous, would not fall within the definition.
- b. The payment must be in relation to the contribution made in terms of labour, and not, for example, in terms of capital invested.
- c. The payment must be in addition to wages, this being taken to mean in addition to normal trade union or standard rates of wages.
- d. The share of profits must be fixed beforehand, and not rest in the employer's discretion.
- e. The share must be related to "profits" and not be some system of piece-work or collective bonus on output or economy of production, or the like". (Wallace, 1959, p 10).

A British Ministry of Labour report in 1920 also accepted the definition of 1889 in principle but again tried to broaden its meaning

and scope. With regards to "agreement" the above report pointed out the unnecessary of a bi-lateral agreement entered into between the employer and the general body of his workers (Ministry of Labour, 1920). As far as agreement is concerned there was a difference between this report and the previous one which stressed the necessity of pre-arrangement.

With regards to "Unless the undertaking is to pay out of profits only" the latter report concluded that it is very wide, and Christmas or New Year gifts could come under it as a form of profit sharing so long as these sums were paid out of profits and not as part of the ordinary working expenses. The authors of this report excluded such payments unless the bonus is not only paid out of profits, but also fluctuates in some definite way with the amount of the profit (Ministry of Labour, 1920).

With regardsto "the money to be received by the employee under profit sharing (it) is to be received by him strictly as an employee" (Ministry of Labour, 1920, p 6). Cases of a company issuing shares to its workers were to be included but the report put more weight on the necessity for the share to be fixed in advance in order to be a case of profit sharing. In the opinion of its authors "profit sharing scheme should guarantee to workers in advance that their extra effort should be rewarded" (Ministry of Labour, 1920).

It can be noticed from the above discussion that the 1920 report defines profit sharing in the same terms as the previous report in 1912. Both of them were broadly based upon the principles of the International Congress definition of 1889 but both gave more weight to formalisation of these precepts. The report of the same body made in 1956 also accepted this definition of profit sharing. However, this report extended it to include other schemes regarded as operating in conformity with the spirit of profit sharing (Ministry of Labour, 1956).

The latter report was based on a study which discovered that there were a large number of schemes in which although no pre-determined basis was laid down, a bonus out of profits was regularly allocated to employees, the amount of which fluctuated in practice broadly in accordance with the level of profits. These schemes were taken as profit sharing. Neither did the report stipulate that profit sharing should extend to all, or the large majority of the employees. Instead its authors widened the definition to include those cases in a whole category or group of employees participated in these schemes as a whole group and not simply as a few specially selected employees (Ministry of Labour, 1956).

More recently, Income Data Service in their study defined profit sharing as:

"A share of the profits or wealth created by the enterprise distributed to employees in addition to wages and direct incentive" (Income Data Service, 1977, p 1).

This definition represents a departure from the precisely enumerated conditions of the 1889 definition. Profits can be distributed in any form ie cash; deferred; or a combination. Moreover, this definition does not require the distribution of shares to all or the majority of employees but may apply only to certain groups of employees. Also, it does not require the amount to be distributed to be specified; this may be discretionary. It requires only that the scheme should provide for a share-out on a regular basis. In this respect it reflects private practice much more than official ideology.

It can be noticed from the above discussion that the British Governments' conception of profit sharing schemes shows an acceptance of the definition of profit sharing laid down by the International Congress held in Paris in 1889. Although their later definitions may have differed from that definition, the reports of the Ministry of Labour differ only in the scope of their definition not in spirit.

Changes or modifications or innovations on the 1889 definition, were perhaps due to changing political and social circumstances in the UK. By 1956 the Ministry had adopted a much more descriptive rather than prescriptive approach to defining profit sharing schemes. One is bound to wonder whether the same process of expansion and broadening of the definition occurred in the USA where the system also started early in the industrialising process and was, and still is, voluntary.

In the USA, in 1916 a study was carried out by the Bureau of Labor Statistics in which profit sharing was defined as follows:

"Profit sharing is an agreement or understanding between an employer and his employees under which a fixed proportion (to be definitely determined in advance) of the earnings of an enterprise is distributed to at least one third of the total number employed" (The Bureau of Labor Statistics (USA), 1916, p 101).

It can be observed from the above definition that although the American definition broadly coincided with the Paris definition of 1889 in defining a fixed proportion of earnings and recipients yet it was a more flexible approach because it did not exclude cases under which not all or the majority of employees (not less than 75%) participate in it. Instead it allowed a minimum requirement of only one third of the total number employed in a company.

Later, the United States Senate study of profit sharing in 1939 gave a broader definition to the meaning of profit sharing. It stated that:

"Profit sharing with employees is not profit sharing unless a fair and just wage is paid before there is a division of net profits, and, technically speaking, the share should be a percentage or sum fixed in advance." (as quoted by Meier, 1957, p 13).

Thus suggesting that the status of the employee should be defined primarily in terms of his or her receipt of a fair wage before that of a shareholder.

In 1957, a more flexible approach was shown by the privately constituted Council of Profit Sharing Industries in the USA in their

study, which defined profit sharing as:

"Any procedure under which an employer pays or makes available to all regular employees subject to reasonable eligibility rules, in addition to prevailing rates of pay, special current or deferred sums based on the profits of the business." (Meier, 1957, p 14).

In the opinion of the above study, it has been noticed that a profit sharing scheme should satisfy the following requirements:

- "1. be based on profits
2. apply to all regular employees, subject to reasonable eligibility rules
3. be formalized and written
4. be communicated to employees
5. distribute monies, currently or deferred, at regular intervals and in an established pattern
6. provide payments that are above and beyond prevailing wages". (Ibid, p 14).

This definition accepts, as a form of profit sharing, wage dividends - additional payments to employees that are not tied to the company's profit but to dividends paid to stockholders (Knowlton, 1961). Also, as has been noticed by Wallace, the above definition appears to depart from the spirit of the 1889 definition because instead of referring to "an agreement" to share profits, it refers to "any procedure" to do so (Wallace, 1959). In his opinion: "An employer's 'procedure' is not only not a contract, it is not even, in term, a firm and communicated arrangement 'fixed in advance'" (Wallace, 1959, p 64). Furthermore, he remarks that the above definition was not, in terms, a procedure to share "profits" but to pay "special current or deferred sums" which are based on the profits.

However, the above definition is similar to 1889 definition as far as the number of employees who participate in the scheme are concerned. It was required by this definition for all employees to participate in profit sharing. Wallace explains that: "... it restricted

recognition only to schemes which make profit sharing available 'to all regular employees': that is to say not to selected classes or to those arbitrarily selected ..." (Wallace, 1959, p 64).

Three years later the Profit Sharing Foundation in 1960 reformed their definition to give more stress to the incentive aspect of profit sharing schemes, and to make it clear that:

"Profit sharing is any method of raising output and lowering costs through human co-operation which is brought about through the direct participation of the employment (in addition to their regular wage) in the total results of the enterprise as measured by profits" (Jehring, 1960, p 2).

In 1964 another study by the same authority under the supervision of one of the leading writers on this subject in the USA, Metzger, put forward another definition for profit sharing as follows:

"A plan in which the company contribution to employees is based upon business profits, regardless of whether the benefit payments are made in cash, or deferred, or a contribution of the two" (Metzger, 1964, p 1).

In his opinion, profit sharing programs are different from: individual incentive, production, or sales bonuses; group production (or cost savings) plans; Christmas or other cash bonuses, not tied to profits; employee thrift plans; pension programs; stock option; health, welfare plans, cost of living allowances, annual improvement factor programs; and the like (Ibid).

It is clear, from the above definitions given by the Council of Profit Sharing Industries and the Profit Sharing Research Foundation, that both of them have recognized the different forms of profit sharing: cash, deferred, and a combination of both. Both have tried to regulate and determine the main features of such plans but neither of them required that there should be a predetermined basis to be fixed in advance.

Nevertheless, the Internal Revenue Services (IRS) of the United States have demanded that they be on a predetermined basis as far as for deferred profit sharing schemes are concerned. The specific

requirements of such schemes stated by the IRS are that:

"A profit sharing plan is a plan established and maintained by an employer to provide for the participation in his profits by his employees or their beneficiaries. The plan must provide a definite predetermined formula for allocating the contributions made to the plan among the participants and for distributing the funds accumulated under the plan after a fixed number of years, the attainment of a stated age, or upon the prior occurrence of some event such as lay off, illness, disability, retirement, death, or severance of employment." (Engen, 1967, pp 1-2).

More recently, the Bureau of Labour Statistics embodied the requirements of profit sharing schemes which were laid down by the IRS:

"The plan must represent a commitment by the company to make periodic contributions based on profits, it must contain a formula for the allocation profit shares among the participating employees; it must provide a method for distributing profit shares - current or deferred distribution or combination of both; it must be communicated to the employees; and it must cover a majority of plant or office employees." (Engen, 1967, p 2).

This definition does not restrict deferred profit sharing plans as in the manner of the Internal Revenue definition. It does, however, require as a main feature of such plan that it be applied to the majority of employees. It is marked, also, that the recent definition of the Bureau is different from their previous definition in 1916 in that the amount or percentage of profits to be shared are not required to be determined in advance.

The above discussion has illustrated the historical background of the definition of profit sharing schemes in the USA. It is clear that the main two definitions which still prevail in American business are The Council of Profit Sharing Industries and Internal Revenue Services definitions. The last definition which was laid down by the Bureau of Labour Statistics can be considered the most rigorous one, and is sufficiently general to be applied to all kinds of profit sharing schemes in the USA. American business appears to depart from the spirit of the 1889 definition in adopting a more diffuse view of profit sharing as does British management. In both countries it is the governmental agencies who wish to define the status of the employee

and the rights of members more rigorously than employers.

From the above study of the definition of profit sharing and its historical development, one is able to conclude that there is no one universal definition, and that definitions also vary over time. Notwithstanding these differences, governmental definitions are imbued with the spirit of the 1889 definition. There are definitions of profit sharing schemes other than those dealt with in this review and study, but they are forthcoming from those countries which apply profit sharing schemes compulsorily. In other capitalist countries, the evolution of profit sharing follows the same historical outlines of the debate between industry and government that is demonstrated to have occurred in Britain and America.

Bearing all the above definitions in mind, one can conclude that a number of specifications may be seen to emerge in official (governmental) definitions of profit sharing schemes:

- (1) It must be a written agreement, which would not only increase employees' confidence in the management and the scheme itself but also be a document to which they could refer at any time.
- (2) The scheme should be applied for the benefit of all employees and not a percentage of them since it is a group motivator. (Without this prior condition it may indeed have an adverse effect on employees' relationships and hence on output.) However, this does not exclude the possibility of regulating membership, eg length of service at least one year before participating in the scheme.
- (3) The scheme can take the form of a cash payment or a deferred reward, or a combination of both, but it must be out of the profits, and fluctuate accordingly.
- (4) There can be no connection between profit sharing and fair

wages, or in other words a profit sharing scheme cannot be introduced as a substitute for fair wages otherwise it would not be an additional incentive and would set the employee in the same relationship to profits as the shareholder.

5.2 Historical Background

As we have seen in the last section, the idea of profit sharing is not new but, in a formal sense, goes back to the beginning of the Industrial Revolution. It is difficult, however, to precisely define when the idea started, due to changing definitions and to its erratic and badly recorded history. As the Council of Profit-Sharing Industries in the USA has pointed out:

"The record of profit sharing has been confused by varying definitions of the term and evolutionary changes in the principle" (Meier, 1957, p 15).

Formal schemes coincided with the introduction of the factory system of production. The unitary purposes of employers are explained by Brower as follows:

"They believed that it was only right to divide the profits equitably between those who invest their time and efforts and those who invested their capital ... employers have hoped to provide a common goal toward which workers and management may strive. If they are able to impart to the workers the idea that they are partners and can by their own efforts increase the prosperity of the enterprise, the owners as well as the workers gain through this partnership ..." (Brower, 1957, p 5).

But in 1882, Babbage, the English economist, wrote regarding profit sharing as follows:

"These extraordinary cases, are, perhaps, of more advantage to the owner of the mine than even to the men; for whilst the skill and industry of the workmen are greatly stimulated, the owner himself derives greater advantage from the improvement of the vein ..." (Babbage, 1972, pp 178-179).

In spite of the fact that there are many difficulties in determining accurately the beginning of profit sharing schemes, most writers agree that France appears to have taken an early lead in this field. Turgot recognized the principle of profit sharing in 1775 (Meier, 1957). In 1820, the National Fire Insurance Company of Paris and the Union Insurance Company in 1839 instituted profit sharing schemes during the reform movement that followed the Napoleonic Wars. Later in 1842, M Edine Jean

Leclaire,* who was a house painter in Paris, introduced his plan to share profits with his employees (Richardson, 1954; Brower, 1957; and Metzger, 1964). He was stimulated by one of his friend's comments that there was no way to get rid of the antagonism which existed between employees and employers except in "the participation of workman in the profits of the master" (as quoted from Gilman by Metzger, 1964, p 2). This initiative was followed by other employers in France, and, attracting attention abroad, the idea of profit sharing gradually spread, especially in Germany and the USA (Richardson, 1954). In the USA profit sharing is dated back to 1794 when Albert Gallatin introduced it into his New Geneva, Pennsylvania, glass works (Metzger, 1964). However, some authors argue that Brewster and Company Carriage Builders' scheme, which was introduced in 1869, is to be considered the first application of profit sharing on an ongoing basis in the USA (Brower, 1957).

In Germany, Johann Heinrich Von Thünen - a German economist (1783-1850) worked out his profit sharing scheme on his agricultural estate in the early 1800's by giving his employees - in addition to fair wages - a share in the profits of the estate (Metzger, 1964). He felt that a system of profit sharing would help solve the basic conflict and antipathy that was evident between employers and employees.

The first recorded application of profit sharing on a regularised basis in Britain took place in 1865, when Henry Briggs Son & Company of Yorkshire introduced a formal profit sharing scheme (Board of Trade, 1912; Brower, 1957). However,

*He is generally recognised as the "Father of Modern Profit Sharing". For more detail see Wallace, 1959.

some writers argue that the scheme applied by Lord Wallscourt on his farm in 1829 was the first application of profit sharing in the UK (Wallace, 1959). Babbage believed that profit sharing would "become general because no other mode of payment affords to the workmen a measure of success so directly proportionate to the industry, the integrity, and the talent which they exert ..." (Babbage, 1972, pp 178-179).

The best available data concern the development of profit sharing in England and the United States is set out below.

The United Kingdom.

It is beyond this study to trace the early course of the profit sharing movement; what shape it had and has until now. In the Board of Trade (Labour Department) report of 1912, the total number of profit sharing schemes started between 1829 and the middle of 1912 is given as 299 schemes, of which 133 schemes remained in operation at that time (1912) (Board of Trade, Labour Department, 1912). The report found that 106,000 employees were covered under these schemes. In addition, it noticed that the firms which still applied profit sharing schemes at that time were engaged in a wide range of business undertakings of varying magnitude in all parts of the UK. Over the period covered by the report there was an increase in those forms of profit sharing in which the method adopted was either to invest the whole or part of the bonus in shares in the firm. The following table illustrates the progress of profit sharing in the UK up to 1912 (Table 5.1).

From Table 5.1 it can be noticed that a peak occurred in new starts in the late 1880s and in the early 1900s and times of economic depression. These peaks coincide with both new starts of producer cooperatives and the establishment of joint consultative committees (Ramsay, 1977). Only four schemes out of one hundred

Table 5.1

Progress of Profit Sharing in the
United Kingdom up to 1912

Year	Number of Schemes started in each year	Schemes have ceased to exist	Particulars could not be obtained	In operation on 1 August 1912
1829	1	1	-	-
1865	6	5	-	1
1866	6	5	-	1
1867	4	4	-	-
1868	1	1	-	-
1870	2	1	-	1
1871	2	2	-	-
1872	5	4	-	1
1873	2	1	-	1
1874	1	1	-	-
1876	4	2	-	2
1878	2	-	-	2
1880	2	2	-	-
1881	3	2	-	1
1882	2	1	-	1
1883	3	2	-	1
1884	3	1	-	2
1885	2	2	-	-
1886	5	4	-	1
1887	7	6	-	1
1888	6	6	-	-
1889	20	12	-	8
1890	33	27	1	5
1891	17	14	-	3
1892	17	13	1	3
1893	6	5	-	1
1894	6	3	-	3
1895	10	7	-	3
1896	5	4	-	1
1897	3	3	-	-
1898	5	3	-	2
1899	4	1	-	3
1900	9	5	-	4
1901	4	1	-	3
1902	5	-	-	5
1903	6	2	-	4
1904	5	2	-	3
1905	7	2	1	4
1906	4	-	-	4
1907	8	2	-	6
1908	17	-	-	17
1909	16	2	-	14
1910	10	2	-	8
1911	7	-	-	7
1912 (7 months)	6	-	-	6
Total	299	163	3	133

Source: Board of Trade, Labour Department, 1912, p 13.

and thirty three had lasted for more than forty years. The Board of Trade in the above study found that the average duration of the abandoned schemes during the period 1829-1912 was about eight years, while more than one-third of them came to an end before the fourth, and more than one-half before the seventh year of the experiments. The average duration of the existing schemes at the time was twelve and a half years (Board of Trade, Labour Department, 1912).

The reasons for abandonment of the schemes was classified as follows: (Ibid, p 14)

	No of Cases
Apathy of employees and dissatisfaction with results	59
Diminution of profits, and losses or want of success	29
Enterprise abandoned, and liquidation or dissolution	25
Changes in or transfer of business	22
Substitution of increased wages or shorter hours or other benefits	8
Dissatisfaction of employees	4
Job finished or death of employer	4
Special circumstances	4
Reasons unknown	8
	<hr/> 163

It is clear from the reasons for the abandonment of profit sharing schemes at that time (up to 1912) that more than fifty

per cent of the reasons for abandonment had to do with institutional failure. Given the conditions of economic recession in which the system was often adopted it is perhaps unsurprising that most schemes were so short-lived.

This then was the picture of the profit sharing movement in the UK and its progress during the period 1829-1912. However, there was another report by the Ministry of Labour in 1920, which gave more details of the profit sharing movement until that year. By that time 380 profit sharing schemes had been started between 1829 and 1920 (Ministry of Labour, 1920), eighty one schemes having started over the intervening period after the 1912 report. Only 14 of the schemes which were started over the period had achieved more than 30 years duration, and only 36 were started before the year 1901. The following table illustrates the progress of profit sharing in the UK up to 1920 (Ministry of Labour, 1920).

From the inspection of Table 5.2 it can be remarked that the numbers of profit sharing schemes started show great variations from year to year. The above study pointed out that the years 1889-1892, 1908-1909, 1912-1914, and 1919 were periods of maximum activity ie there were 83 schemes started in the period 1889-1892; 32 schemes in the period 1908-1909; 33 schemes in the period 1912-1913; and 29 schemes in the year 1919 (Ministry of Labour, 1920). Also, the study found that the period 1893-1907, the year 1911, and the period of the War, were periods of quiescence.

The above study concluded that the profit sharing movement coincided with two factors: first, fairly high levels of employment; second, high levels of industrial unrest (Ibid). The first period of maximum activity (1889) was the year of the International Congress on profit sharing and at that time profit sharing was receiving a good deal of public attention. In the next period

Table 5.2

Progress of Profit Sharing in the

UK up to 1920

Year	Total Number of schemes started in each year	Numbers of schemes that have now ceased to exist	Numbers of schemes in operation at 31 Oct 1919	Proportion of existing schemes to total started
1829	1	1	-	percent
1865	6	5	1	nil
1866	6	5	1	16.7
1867	4	4	-	} 15.4
1868	1	1	-	
1869	-	-	-	
1870	2	1	1	
1871	2	2	-	
1872	4	4	-	} 18.2
1873	2	2	-	
1874	2	1	1	
1875	1	-	1	
Total 1829-1875	31	26	5	
1876	3	2	1	} 42.9
1877	-	-	-	
1878	2	-	2	
1879	-	-	-	
1880	2	2	-	
1881	3	2	1	} 36.4
1882	2	1	1	
1883	3	2	1	
1884	3	2	1	
1885	-	-	-	
1886	6	4	2	} 14.7
1887	6	6	-	
1888	6	6	-	
1889	18	13	5	
1890	32	29	3	
1891	16	14	2	} 18.5
1892	17	15	2	
1893	6	5	1	
1894	6	3	3	
1895	9	7	2	
1896	6	4	2	} 17.4
1897	3	3	-	
1898	3	3	-	
1899	2	1	1	
1900	9	8	1	
Total 1829-1900	194	158	36	18.6
1901	4	2	2	} 48.0
1902	4	2	2	
1903	6	2	4	
1904	5	2	3	
1905	6	5	1	
1906	4	1	3	} 70.9
1907	9	5	4	
1908	16	1	15	
1909	16	4	12	
1910	10	5	5	
1911	8	1	7	} 82.3
1912	18	2	16	
1913	15	2	13	
1914	18	5	13	
1915	3	1	2	
1916	4	-	4	} 100.0
1917	5	-	5	
1918	6	-	6	
1919	29	-	29	
(10 months)				
Total	380	198	182	47.9

Source: Ministry of Labour, 1920, pp 9-10.

(1908-1909), the Gas companies' schemes dominated the statistics of profit sharing. The third period (1912-1914) was a period of rising employment and of industrial unrest while the year 1919 was a period of turmoil in the industrial world.

In the years 1891, 1893, 1897-1900, 1907 and 1916 the numbers of abandoned schemes were very great. It reached an average of eight to ten abandoned schemes in each year.

As far as the causes of abandonment are concerned, the above study pointed out that:

"... in large numbers of cases, the abandonment of the scheme was due to the inability of the firm to earn sufficient profits to make profit sharing a success, or to some other causes independent of the profit sharing scheme, rather than to any defects inherent in the system itself" (Ministry of Labour, 1920, p 12).

There was an increase in the average duration of existing and abandoned schemes over the longer period in comparison with the Board of Trade report in 1912. For the existing schemes the average duration was 14 years in the above study, while it was only $12\frac{1}{2}$ years in the previous report (1912). The average duration for the abandoned schemes at that time was $8\frac{1}{2}$ years instead of 8 years in the previous study (1912) (Board of Trade 1912; Ministry of Labour, 1920). Part of this difference may be explained by the expansion of the large scale production of coal gas by local authorities or private companies based on local communities. Profit sharing achieved its greatest success in these types of establishments where there was a high stability ratio among the labour force, a high capital/labour ratio and stable or growing product markets and profit ratios.

Nevertheless, profit sharing schemes had been applied in firms of all sizes. The following table illustrates this fact.

Table 5.3

Size of Profit Sharing Firms*

Size of the Firm	%
Firms having not more than 25 employees	6
Firms having more than 25 but not more than 100 employees	24
Firms having more than 100 but not more than 250 employees	23
Firms having more than 250 but not more than 1000 employees	27
Firms having more than 1000 employees	20

Source: Ministry of Labour, 1920, p 16.

Another study by the Ministry of Labour found that the total number of profit sharing schemes in 1938 was 261 compared with 341 schemes in 1930, and 180 schemes in 1920 (Ministry of Labour, 1939). The decline of profit sharing schemes since 1929 was explained in terms of the small number of profit sharing schemes known to have been started. There were only 24 schemes that had been started since 1930. The reasons for abandonment of existing schemes were similar to those that appeared in the earlier study (Ministry of Labour, 1939).

In 1956 another study by the Ministry of Labour showed that at the end of 1954 there were 297 firms operating profit sharing schemes on a definite pre-arranged basis*(Ministry of Labour, 1956). These included firms with separate types of scheme for different levels of staff; so that the total number of profit sharing schemes at that time was 310. Of these, 259 schemes were in the form of cash, and 51 were capital holding schemes (Ibid). Hanson, recently agrees:

*A further 31 schemes thought to have been started between 1954 and 1956 were not included in these figures.

"We can say with confidence that the overwhelming majority of schemes in Britain (in the early 1960s) are of the 'profit bonus' type" (Hanson, 1965, p 336).

Of a total number of 564,446 employees entitled to participate in 1954, 344,792 did so (Ministry of Labour, 1956). The reasons for opting out were various and related to the nature of each individual scheme. The largest number of schemes was in the engineering, shipbuilding and electrical goods group (Ministry of Labour, 1956). However, profit sharing schemes were applied in a wide range of various industries, and no single industry predominated. Size of firm was evidently a factor: (Ibid, p 166)

Firms having less than 100 employees	17%
Firms having more than 100 and less than 1000 employees	52%
Firms having more than 1000 employees	31%

Few schemes had been introduced before the beginning of the present century and reported in earlier surveys remained in being. One half of the existing schemes were started after the Second World War, as it is shown in the following table:

Table 5.4
Profit Sharing Schemes Classified according
to period in which they were started

Date of Commencement	Number of Schemes existing at end of 1954
Before 1900	7
1900 - 1913	19
1914 - 1918	5
1919 - 1938	104
1939 - 1945	30
1946 - 1953	126
1954	9
Date unknown	10

Source: Ministry of Labour, 1956, p 168.

Concerning the causes of termination, the study suggests that:

"These were in very many cases connected with changes in the organization of the business and in such cases the ending of the scheme may not have been due to any lack of success attaching to the schemes themselves ..."
(Ministry of Labour, 1956, p 168).

A major cause of termination was the nationalization of gas and electricity industries (Ibid).

A still more recent survey conducted by the Income Data Service in December 1977 demonstrated that the cash form of profit sharing schemes was still dominant. Out of fifty seven cases surveyed, there were thirty seven cases of cash profit sharing (Income Data Service, 1977).

From an inspection of the history of profit sharing movement in the United Kingdom some tentative conclusions may be drawn. The growth of profit sharing fluctuated with economic circumstances for periods of rising wage levels and reducing profits, that is, tight labour and product markets, employers seemed anxious to pass some of the costs of risk-bearing onto employees. Costs may also be seen to have been allowed to fluctuate through the operation of profit sharing schemes in much the way that was possible in the operation of shorter term payment by results schemes. The evidence that profit sharing was actually used in this way is reinforced by the large number of start-ups and failures among smaller firms: the most stable schemes operating in the quasi-public corporations in gas and electricity before their eventual nationalisation after the Second World War.

Not only did profit sharing provide a good economic strategy in terms of risk spreading and as a cost adjustment mechanism, but it accorded with the unitary ideology that has been shown to be dominant among British employers of the period. Faced with union

militancy on a wide scale profit sharing became part of a wider ideologically based response led by larger employers such as ICI and Unilever. This philosophy brought few adherents in the period of inter War recession, which in fact saw the closure of many profit sharing schemes, some because of the failure of the companies concerned.

The United States of America

The origins of profit sharing in the USA are subject to disputation. Many writers believe that the profit sharing has only been applied since 1865, while others credit the application of such scheme to Albert Galletin, who applied profit sharing scheme for his employees in his glass works in New Geneva, Pennsylvania, in 1865 (Meier, 1957; Metzger, 1964; Jehring, 1960). Moreover, Meier comments that:

"In fact, communal life of the North American Indians was in essence profit sharing concept. And later, the crews of the old whaling ships and New England fishing boats participated in sharing each day's catch" (Meier, 1957, p 16).

Much of the debate relates to whether one defines profit sharing as relating to a pre-industrial or industrial form of organisation. As a bureaucratic device the idea of profit sharing grew even more slowly in the United States than it did in Britain. A historical study of manufacturing establishments in the USA up to 1896 indicates that 50 companies had adopted profit sharing schemes, of which 33 had been abandoned by that time and 5 indefinitely suspended, leaving a balance of 12 schemes then in active operation (Brower, 1957).

A study by the US Department of Labor in 1916 concluded that there were 60 profit sharing schemes at that time, of which more than two thirds had been in operation (The Bureau of Labor Statistics, 1916). A later study by the National Industrial Conference Board

(NICB) in 1920 stated that there were 54 schemes, of which 41 schemes included all employees and 13 were only for managerial employees (Brower, 1957). The world depression had its effects on the profit sharing movement in the USA. During the depression of the 1930's interest in profit sharing in the USA was at a very low level (Metzger, 1964). The termination of many companies led, in turn, to discontinuation of many profit sharing schemes. A 1934 survey of profit sharing by the NICB portrayed the damaging effect of the depression. Of the 134 plans included in the study, only 77 were active in that year, while 48 plans had been suspended because of lack of profits and the remaining 9 had been definitely discontinued (NICB, 1934).

In 1937 another study by the above mentioned authority showed only 50 plans active (30 per cent) out of the 161 plans investigated; the rest were described as "inactive" or discontinued (NICB, 1937). A consulting group, Industrial Relations Counsellors, made a survey in 1937 which indicated the following rate of adoption of profit sharing schemes in the USA as follows:

Table 5.5
Rate of Adoption of Profit Sharing Schemes
in the USA up to 1937

Date of Adoption	Number of American Plans Initiated
Prior to 1881	6
1881 - 1890	23
1891 - 1900	7
1901 - 1910	17
1911 - 1920	75
1921 - 1930	24
1931 - 1936	33
Date unknown	8
Total	193

Source: Metzger, 1964, p 8.

Definite information was obtained on 144 out of the 193 schemes, and of these, 46.5 per cent were still in operation in 1937 (Ibid).

Metzger suggests that profit sharing has gone through a number of staged sequences of development in the USA:

"A more realistic, practical movement between 1880-1900;

An approach to solving the labor problem between 1910-1929;

A more realistic, practical movement between 1939 and the present" (Metzger, 1974, p 20).

By 1939 a new interest in profit sharing was sparked by a report from the Vandenberg-Herring sub-committee of the Committee on Finance, US Senate. The report encouraged employers to introduce profit sharing schemes for their employees. They suggested that:

"Most writers ... on the subject of profit sharing have conveyed the conclusion and opinion that because more profit sharing plans have been discontinued and abandoned than have survived therefore the principle of profit sharing is unsatisfactory and impractical. ... It might be stated that the same fact is true of corporations, with even a greater percentage of failures, yet we do not conclude from that record that corporations per se are unsatisfactory or impractical. No progress in social, industrial, or political development was ever brought to successful practice or conclusion except from the lessons gained from experience with earlier failures" (as quoted by Metzger, 1964, p 8).

Subsequent to the above Senate report, encouragement was given to companies through favourable tax legislation. In fact, these advantages were only given to deferred profit sharing plans. Briefly, Internal Revenue Service regulations permit the deductibility of the employer's profit sharing contributions as a business expense and allow the deferral of this money into a trust without any current tax liabilities on employees (participants) receive their benefit ie on retirement ... etc (Metzger, 1974).

It has been pointed out that this increasing interest in deferred income plans was sparked by other factors, "such as wage and price control and tight job market. While employer could not distribute profits currently without adding to inflationary forces, he could institute a deferred distribution plan" (Engen, 1967, p 4). Wallace noted the new direction of profit sharing schemes in the 1940s and pointed out that the great majority of American profit sharing schemes prior to the World War Two were of cash*, but after that came the new development of stock holding schemes (Wallace, 1959).

Following World War Two, the idea of profit sharing increased dramatically. Many studies and reports noticed this new development in profit sharing schemes in the USA, particularly over the last two decades. A study completed recently by Metzger saw the growth as due to a combination of many factors ie tax advantages; wartime wage controls; growth of retirement plans; and the need for greater labor-management accord (Metzger, 1974). In addition, Metzger illustrated this growth with respect to deferred and combination profit sharing plans as in the following table.

*In common with Wallace, Flippo pointed out that prior to the 1940s there were three cash profit sharing schemes to one of the deferred type in the USA (Fillipo, 1961).

Table 5.6

Growth in Number of Qualified Deferred Profit Sharing, Pension, and

Stock Bonus Plans in the USA - 1939 through 1972

(approvals minus terminations)

Period Ending 31 Dec	Growth during Period					Cumulative Total					
	Deferred Profit Sharing	Pensions	Stock Bonus	All Plans	Deferred Profit Sharing	Pensions	Stock Bonus	All Plans	Pensions	Stock Bonus	All Plans
1939	37	622	-	659	37	622	-	659	622	-	659
1944	2,076	5,051	-	7,127	2,113	5,673	-	7,786	5,673	-	7,786
1949	1,452	3,302	-	4,754	3,565	8,975	-	12,540	8,975	-	12,540
1954	4,677	9,356	-	14,033	8,242	18,331	-	26,573	18,331	-	26,573
1959	11,875	15,766	87	27,728	20,117	34,097	87	54,301	34,097	87	54,301
1960	4,680	4,711	8	9,399	24,797	38,808	95	63,700	38,808	95	63,700
1961	4,090	4,545	17	8,652	28,887	43,353	112	72,352	43,353	112	72,352
1962	4,635	4,712	12	9,359	32,522	48,065	124	81,711	48,065	124	81,711
1963	4,827	5,399	24	10,250	38,349	53,464	148	91,961	53,464	148	91,961
1964	4,582	6,072	13	10,667	42,931	59,536	161	102,628	59,536	161	102,628
1965	5,502	6,983	11	12,496	48,433	66,519	172	115,124	66,519	172	115,124
1966	7,440	9,521	12	16,973	55,873	76,040	184	132,097	76,040	184	132,097
1967	8,500	10,690	24	19,214	64,373	86,730	208	151,311	86,730	208	151,311
1968	10,095	12,224	20	22,339	74,468	98,954	228	173,650	98,954	228	173,650
1969	12,489	13,824	34	26,347	86,957	112,778	262	199,997	112,778	262	199,997
1970	14,885*	15,370	13*	101,842*	101,842	128,148	275*	230,265	128,148	275*	230,265
1971	16,441	20,888	-	37,329	118,283	149,036	-	267,594	149,036	-	267,594
1972	19,295	26,520	-	45,815	137,578	175,556	-	313,409	175,556	-	313,409

* From July 1970 stock bonus plan figures are merged with those of deferred profit sharing plans.

Source: Metzger, 1974, p 20.

Metzger's study pointed out that there were about 100,000 cash profit sharing schemes in June 1973 (Ibid). Various other estimates had been made on the number of cash profit sharing schemes in the USA. For example, Knowlton concluded from his study that 39.4 per cent of profit sharing schemes were in cash form (Knowlton, 1954) Meier found 29.9 per cent (Meier, 1957); Brower stated that there were 24 per cent of total profit sharing schemes in cash form (Brower, 1957); and Metzger concluded that 20-30 per cent of profit sharing schemes were in cash at that time (Metzger, 1974). All estimates agree that by the 1970s stock holding schemes prevailed over short term cash bonus schemes.

Metzger's study also reports that profit sharing schemes cover approximately one-sixth of employees out of a private and non-agricultural work force (Metzger, 1974). Moreover, the study indicates the growth of such schemes in the service sector and new areas of manufacturing:

"... approximately one out of five insurance companies, one out of four manufacturing companies ... one out of three retail firms ... and wholesale distributors now share profits ... (with regards to banks, the study stated that) ... the latest Bank administration Institute survey shows that 1,613 out of 4,012 banks surveyed (40 per cent) have profit sharing plans ..." (Ibid, p 22).

Thompson, writing in 1949 described interest in profit sharing as "'cyclical': interest in sharing the profits of American industry with its workers rides the tide of the dynamic business cycle, burgeoning in periods of general industrial prosperity and subsiding in times of depression" (Thompson, 1949, p 3). Metzger, agreed with Thompson's description of the interest in profit sharing as cyclical when he stated that: "Early studies of profit sharing plans (predominantly cash plans) would seem to bear out this 'cyclical' nature of profit sharing" (Metzger, 1964, p 7). He refers to the NICB's survey in 1934 which found that of the 134

plans included in the study, 57 plans were suspended or discontinued; 48 plans were suspended because of lack of profits (Ibid). He also referred to the Industrial Relations Counsellors survey of 1937, in pointing out that only 46.5 per cent of profit sharing schemes created up to 1937 were still in operation (Ibid).

The NICB's report suggests that the causes for failure up to 1937 were as follows:

Table 5.7
Reasons for Discontinuing of Profit Sharing Schemes
in the USA up to 1937

Reasons for Discontinuing	Number of Cases	%
I. Unfavourable reaction of employees		
- Employee dissatisfaction and indifference	19	19.8
- Employee preferred amount in pay involve	8	8.3
- Union agitation	4	4.2
II. Company dissatisfaction		
- Unsatisfactory - no other explanation	6	6.2
- Unsatisfactory - replaced	5	5.2
III. Other causes		
- No profits	21	21.9
- Change of management, mergers, etc	14	14.6
- Government interference and tax	8	8.3
No explanation	11	11.5
Total	96	100

Source: NICB, 1937.

Later in 1945, Industrial Relations Counsellors survey pointed out the main reasons for discontinuing profit sharing schemes were: 33 per cent no profit; 32 replaced by another plan; 15 per cent alleged discrimination; 7 per cent lack of understanding

on the part of employee; 7 per cent company reorganized, merger; and 6 per cent poor incentive (Wallace, 1959).

Knowlton summarized the reasons for termination of profit sharing schemes prior to 1940 as follows: (Knowlton, 1954)

- a) too small profit, or no profit
- b) change in ownership or control
- c) failure as a group incentive
- d) workers' preference for wage increases (in at least some cases the workers receiving less than standard wage rates).

Moreover, he cast doubt on previous surveys by suggesting that 31 per cent of the companies in his sample reported by the NICB as operating a profit sharing scheme had never done so and that 14 per cent were so ad hoc as not be termed profit sharing in an institutional sense. Recently, Metzger, found that reasons behind discontinuances plan were as a result from business failures, mergers and reorganisation but not as a result of reasons implying profit sharing failure (Metzger, 1964). Moreover, more recently he stated that:

"Many deficiencies in profit sharing practice exist across the United States in areas of plan design, communication and administration, investment practices and techniques for maximising employee participation/ involvement to make the plan really generate psychic and financial results ... Profit Sharing is a tool, and like any tool, it is as good as the skill of the user" (Ibid , 1974, p 23).

It may be concluded that there has been a sharp increase in interest in profit sharing schemes from the Fifties. This interest coincides with government encouragement for deferred forms of profit sharing schemes in the form of tax incentives or remissions for firms using approved forms of stock-option schemes. However, the cash profit sharing schemes still represent

a considerable percentage of total profit sharing schemes in the USA.

It can be noticed also that the world depression of 1930's had the same effect on the movement as in the United Kingdom and that the growth of the movement can be traced in a way which coincides with the economic exigencies facing the firms introducing such schemes.

Conclusion

By comparing the historical movement in both the USA and the UK some observations could be concluded:

- a) That periods of growth in profit sharing relates to periods of rapid rises in money wages combined with increased competition in the product market. Profit sharing therefore offers distinct advantages to both capitalist entrepreneurs as a labour market strategy at these times and to governments attempting to restrain the growth of money incomes.
- b) That given these exigencies only a minority of employers have opted to use such strategies and that therefore an ideological predisposition towards their usage may be a factor in their choosing to follow such an approach.
- c) That the encouragement of stock option or shareholding schemes by tax laws and legislation in America has been a major influence in determining the long term nature of shareholding in the USA when compared to Britain and in the recent increase of such schemes there.

- d) A major factor in the failure of profit sharing has been a lack of profits to distribute. This circumstance may reflect on the motives of both employees and employers in the formation of such schemes.
- e) There is at least some evidence that the schemes included in employer or consultancy enducted schemes were not in compliance with the definitions set out by the various international and statutory bodies listed in the previous section. This suggests further evidence of the transitory nature of such schemes in many firms employment strategies.

5.3 Techniques and Operational Aspects of Profit Sharing Schemes

5.3.1 The Main Objectives (Motives) Behind Profit Sharing Schemes

It is a difficult task to discover the motives behind the application and installation of profit sharing schemes (Board of Trade, 1912; Narasimhan, 1950; Metzger, 1964). This may be due to the fact that they have been diverse and have not in many cases been explicit or declared (Bigge, 1948; Cutting, 1957; Jehring, 1960). In the early days of the movement some entrepreneurs introduced such kind of schemes as anti-trade union devices (Board of Trade, 1912; Narasimhan, 1950; Knowlton, 1954). Yet, studies in the Western world, especially in the USA and the UK, have suggested that employer motivation may be more complex. The main classes of motives for installing such schemes have emerged from studies under seven headings:

- (1) Belief in the principle itself (moral obligation) (Ministry of Labour, 1920; Knowlton, 1954; Brower, 1957; Chruden and Sherman, 1968). The belief in the moral obligation of the employer to share the value added with labour. This may have a number of ideological roots varying from the unitary view of authority adopted by socialist governments or traditional managers to the liberal views of market oriented entrepreneurs.

"We sincerely believe that persons responsible for the success of the company should share in the favourable results of their effort" (as reported by Brower, 1957, p 12).

"The company believes that a basic partnership exist between those who invest savings and those who invest their lives. The profit sharing plan is based on a concept of what is fair and right in human relations ..." (Ibid).

(2) To encourage sense of partnership; belonging; and thereby increase employees' interest in the organisation (Badger, 1958; Metzger, 1964; Chruden and Sherman, 1968). It is said that if employee shares in his company's profit, he will feel a partner to it. Consequently common purpose will be created; his potential co-operation will be released and he will do his best to make his company more profitable. This in turn will increase his economic security; commitment; and interest in his company.

"A desire to build a closer working organization in which all share a common goal ..." (as quoted by Brower, 1957, p 12).

- (3) Attracting and keeping "desirable" employees (Flippo, 1954; Brower, 1957; Badger, 1958; Metzger, 1964). By allowing employees to share in the company's profit as a partner, in addition to competitive wages the profit sharing bonuses are said to be a long term incentive to stay with the organization. Employees will feel more secure, and their sense of belonging will increase which should considerably reduce labour turnover. The case is more clear in deferred type of profit sharing scheme rather than current distribution form.
- (4) Save capitalism (Meier, 1957; Badger, 1958; Jehring, 1960). It has been said that when the status of worker does change to become a shareholder, he will be less vulnerable to the socialist political propaganda and capitalism will be saved. It is one way to integrate workers into capitalism through the elimination of the struggle between capital and labour.
- (5) Flexibility to the wage structure (Brower, 1957; Badger, 1958; Hanson, 1965). Without disturbing or changing a wage structure

an employer can give employees more profit in the upturn of business cycles and thereby let them enjoy and share its prosperity. In the downturn of business or profit levels the employee will take little of the value added. In this way the scheme will help - without changing the wage structure - to achieve a more flexible remuneration package. Increases will imply no commitment to perpetuating increases given in more profitable years over periods of loss or non-profitable years (Hanson, 1965).

"Labor costs are higher when we can afford them, and lower when we can not afford them" (as reported by Brower, 1957, p 13).

- (6) Improved employee morale (Brower, 1957; Badger, 1958; Jehring, 1960; Metzger, 1964). As a result of changing employee's status to a partner and increasing his sense of belonging, profit sharing has been said to be a morale builder. More harmony and smooth relationships between all parties concerned will prevail in day to day relationships. Accordingly team work spirit and co-operation will be achieved.

"Stimulates participation by employees in building the business" (as reported by Brower, 1957, p 13)

"Identifies the employees' interests with the company for smooth employee relations" (Ibid).

- (7) Increased efficiency and productivity (Flipppo, 1954; Knowles, 1955; Brower, 1957; Jehring, 1960). Having achieved a sense of belonging, partnership, and increased employees' morale, profit sharing is said to act as an incentive to increase efficiency and productivity. In addition, the scheme may help in improving the quality of work and reducing spoilage and waste.

"Management believed the plan would produce a high degree of efficiency in an industry where labor hours are a big factor" (as reported by Brower, 1957, p 13).

"An incentive to obtain increased employee efficiency and lower costs resulting from better control and greater cooperation" (Ibid).

"Will give incentive to more economical and efficient plant operations, the benefits of which will be shared with employees" (Ibid).

"To stimulate a desire on the part of the employee to increase his effectiveness" (Ibid).

5.3.2 Types and Forms of Profit Sharing Schemes

Because of the voluntary nature of profit sharing movement, particularly in Western countries, it is indeed difficult to generalize about details of profit sharing schemes. There are variations in objectives; methods and formula used in operationalising the general concepts (Board of Trade, 1912; Ministry of Labour, 1920; Knowlton, 1954; Harper, 1955; Wallace, 1959). Some scholars classify schemes according to the type and timing of the methods of distribution used while others classify them according to the kind of applied formula. The present study will agree with the majority who have classified profit sharing under three main categories: Cash or Current Rewards; Deferred Rewards; and Combined or Combination schemes. The following will illustrate these and throw some light on each category.

5.3.2.1 Cash or Current Distribution

Under this type, profits are paid directly to employees (participants) in form of cash* as current compensation, within a short period of the money being earned and as soon as profits are determined (Board of Trade, 1912; Ministry of Labour, 1920; Metzger, 1964; Chrüden and Sherman, 1968). Normally profit is distributed

*Profits are paid as well in the form of a cheque or company stock or both. For more detail, see Knowlton, 1954.

according to this type at intervals of one year or less (annually; quarterly; monthly if feasible and if that suits company circumstances).

There are many advantages which are usually associated with immediate cash distribution. For the employee it is easier to understand than deferred schemes. For this reason it is said to have more value as an incentive to production particularly when there is an immediate cash distribution and employees do not have to wait long for their efforts to be rewarded (Chruden and Sherman, 1968). Moreover, although profit sharing is not a piece work incentive, a cash distribution form has a definite compensation that any individual worker can relate to his effort and which in turn will serve as a stimulant to greater efficiency and productivity.

Further, it gives employees extra immediate purchasing power which helps him to raise his standard of living without the need for borrowing (Ibid). Another advantage is that the individual employee will receive his money within a current price structure and is not going to be affected by deflation or inflation at some future date. The employee's freedom to spend his share on whatever he likes to is considered, also, as one of the advantages of such a kind of plan.

For the employer the cash plan serves to introduce flexibility into the wage structure as the company can give its employees more compensation beyond and above competitive wages without tying itself to a prohibitive wage scale that might be disastrous in a period of readjustment or slack business (Knowlton, 1954; Metzger, 1964). Cash forms involve less problems in administration and implementation (Meier, 1957). The profit is distributed directly and not kept or invested which might imply administrative costs greater than the advantages obtained from the liquidity present in

the monies paid out.

There are some drawbacks, however, for both parties. The employee's share under the cash distribution is subject to current taxation which is higher than the case of deferred distributions (Meier, 1957). At an older age or at the time of retirement employee income will be less than the current income and tax accordingly, will be less. For the employer too deferred schemes often earn preferential treatment (in the USA, France and Germany for example).

In less profitable years the employee's share (according to cash distribution) will fluctuate downwards (Ibid). This in turn may affect both employee's income and morale. From the government's viewpoint, the cash distribution by increasing the employees' purchasing power might aggravate the economic situation particularly during a period of inflation (Kamel, 1971). For the employer one of the main disadvantages of cash distribution is that it might affect the cash liquidity of the company. Moreover, it may prevent the company from using such profit (as an internal source) in its expansion instead of borrowing from outside sources which may reduce the company's profit (Ibid).

5.3.2.2 Deferred Distribution

According to deferred profit sharing schemes, the employee's share* in the company's profit is credited to his account to be paid to him or his beneficiaries upon certain specified contingencies at a later date, such as retirement, termination of employment, illness, withdrawal from the scheme, disability, severance, or death (Narasimhan, 1950; Brower, 1957; Metzger, 1964; Megginson, 1967).

* Deferred distribution usually takes one form of: profit sharing certificates, shares in the company; credits to a deposit account or a pension fund, or postponed vesting of benefits.

Distributions of this nature are considered deferred in the sense that they represent compensation earned currently but with payment postponed and deferred to the future.

Among the major advantages associated with deferred distribution in reality are tax reductions. The payment of income tax will be usually later, when it is to be expected that the employee's income will be at a lower tax rate than if the benefits were all received currently (Meier, 1957; Bardes, 1953). In addition, deferred distributions may provide the company with a more flexible method of accumulating a retirement fund, or it may serve to supplement the benefits of a regular pension plan (Metzger, 1964). In turn, this will increase the employees' economic security (Flippo, 1954). In non profit years the benefits may still continue on this basis while as had been mentioned, the distribution of current benefits will not continue (Medlin, 1967).

The deferred plan in the form of shares is said to emphasise the partnership principle and to affect the workers' attitudes from those of a mere wage-earner to that of a shareholder (Chruden and Sherman, 1968; Meier, 1957). Workers have a stake in their company and are, therefore, seen to become more interested in its stability, continuity, growth, and success. This, in turn, is seen to reduce labour turnover (Chruden and Sherman, 1968).

If the trust fund is invested safely and in high grade corporate securities the employees' share should increase accordingly. This accumulation of funds may also serve as an internal source for company expansion without the need for increasing the capital or borrowing with high cost from other sources eg banks.

Nevertheless, deferred profit sharing has some drawbacks (Meier, 1957; Engen, 1967). Employees do not have control over their share in the company profits until receipt at some future date.

As a result their purchasing power will not be increased according to increasing earning power. They have no access to their funds until retirement or emergency. They have no personal control on how their share should be invested (Meier, 1957). Decreases in the value of shares in which his profits are invested may affect his eventual receipts. Hence, employees may not be satisfied with deferred kinds of profit sharing as a transfer retirement security since they depend upon variable contributions for growth (Engen, 1967).

5.3.2.3 Combination/Combined Distribution

In this type, part of the employees' share (profit) will be paid to them directly in a form of cash distribution and the remaining portion will be deferred and kept in a trust fund to be distributed at a future time (Knowlton, 1954; Megginson, 1967; Metzger, 1964). So, these combination schemes try to combine all the advantages of both current and deferred forms while eliminating their drawbacks.

The above discussion highlights these advantages and disadvantages. In choosing and adopting one or another of these types the company has to define its objectives and how they are likely to be achieved before selecting the best type for their particular circumstances.

5.3.3 Determining the Profits which will be Distributed (Company's Contribution to Profit Sharing)

Against a background of the diversity of existing profit sharing scheme, each company seemingly fits its scheme to satisfy its actual needs. This results in a great variety and a number of ways of determining what amount of profit will be shared and how it will be distributed among participants (Narasimhan, 1950;

Flippo, 1954; Meier, 1957; Badger, 1958; Wallace, 1959; Metzger, 1964).

The term profit itself has been given many meanings by economists, accountants and management. In reality and according to existing schemes, profit is normally used in the accounting sense.* Profit is normally considered to be the remainder of the total income after covering and deducting the current obligations of a company (Knowles, 1955).

If agreement has been reached on how to calculate a company's profit, still the main problem which confronts the management is how much of this profit will be shared by its employees. In reality, there are many ways to determine a company's contribution to profit sharing (Bell, 1973). Metzger has suggested the following guide and to serve as a framework for the alternatives available to companies determining their contribution to the scheme (Metzger, 1964).

- I. Discretionary (eg determined each year by decision of Board of Directors)**
- II. Predetermined by formula
 - A - Tax basis
 - 1 - Before taxes
 - 2 - After taxes
 - B - Reservation basis
 - 1 - Without prior reservation
 - 2 - After prior reservation

* However, there is no agreement, even between accountants themselves, on the way to reach or determine company's net profit, eg historical accounting or inflation accounting. For more detail see Shata, 1979.

** In the opinion of the researcher this kind of scheme may lead to mistrust on the part of employees. It must, therefore, have a clear and acceptable formula to guarantee employees understanding, trust, and full co-operation.

C - Methods

- 1 - Straight percentage
- 2 - Sliding scale
 - A - Ascending scale
 - B - Descending scale
 - C - Mixed scale
- 3 - Other methods
 - A - Flat amount, with conditions
 - B - Percentage of pay with conditions
 - C - Wage dividend type

5.3.4 Calculation of Individual Employee's Share

After determining the company contribution to profit sharing, the next step for the employer is to decide how this profit will be allocated to each individual employee. In practice there are many bases for allocating and calculating each employee's share.

As far as the financial rewards are concerned, Table 5.8 summarises the main findings of a National Industrial Conference Board study carried out in America in 1957 (Brower, 1957) - and that of the Profit Sharing Research Foundation study carried out in 1963 (Metzger, 1964). Obviously these rewards are dependent on the profitability of the establishment, the age of the scheme, the number of participants, the working formula and type of scheme adopted.

Table 5.8

Average Annual Amount of Profit Sharing per participant,
as a per cent of compensation of participating employees
 (by type of plan)

Per cent of Compensation	Percentage of Companies - By type of plan			
	NICB's 1957 Study		PSRF's 1963 Study	
	Cash	Deferred and Combination	Cash	Deferred and Combination
Less than 6%	25.5%	31.8%	21.2%	24.1%
6 but less than 11%	34.8	30.2	57.7	31.6
11 but less than 16%	14.0	28.7	3.0	42.4
16 but less than 25%	4.7	6.2*	9.1	1.3*
25% and over	16.3	-	6.0	0.6*
No distribution	4.7	3.1	3.0	-
Total	100.0%	100.0%	100.0%	100.0%
Number answering	43	129	33	79

*Combination plans

Source: Ibid, p 103.

The bases of distribution adopted are those of equal shares, or length of service or existing wage differentials or differential status or a combination of two or more of these factors (Narasimhan, 1950). In choosing which of these will serve as a basis of allocation the employer will have to consider the main objective of the scheme in the first instance. Suppose that the objective is to reduce labour turnover or increase employee loyalty, then length of service may be more suitable than the other bases. Accordingly, the employee's share will be weighted according to his years of service, eg an employee with one year's service will receive £100 from profits, two year's service - £200, and so on.

Crudely speaking the argument for using length of service as the basis of distribution may be pursued on the ground that each employee's contribution has already been compensated by the wage and salary (which reflects the difference between one employee and another) but the individual's worth to the company will increase with the long period he will stay with the company as well as loyalty, stability, quality and reliability (Wallace, 1959).

By contrast, equal shares may be justified on the ground that all employees are contributing to company success and prosperity and, therefore, the share must be equal, particularly when other differences have already been compensated for by wage and salary differentials (Badger, 1958; Metzger, 1964). This principle is extended in the classical argument for the existing wage differentials as a basis for allocating profit to employees, in that these reflect the main differences in every contribution to the company (eg responsibility).

For more accurate results a company may use a mix of two or more of the above mentioned bases for allocation. Nevertheless it must

be aware of its complexity and the possibility of misunderstanding by employees (Knowles, 1955; Metzger, 1964).

The company must be careful in choosing the basis for distribution which it will follow. Employees must be consulted and the objective of the scheme must be clarified for them. The nature of this consultation varies between companies depending upon the degree and form of labour collectivisation and the approach adopted by management.

In practice not all employees generally meet the minimum requirements set by employers in order to join their schemes. The Profit Sharing Research Foundation study suggests that the main requirements should be those of full time employment at the firm and a minimum length of service (Metzger, 1964). Although profit sharing could be limited to certain categories of employment, it was thought much better for the scheme to take in all employees in the establishment. Obviously, the eligibility requirement and whether it is there or not depends on the company's philosophy and objectives of the scheme and the types in use (deferred, cash, combination). For example, deferred schemes may exclude part time and casual employees to increase and provide reasonable payment to the long term employees on their retirement. Furthermore, the waiting period is longer than in cash distribution. If management's objectives from the scheme are to create cohesiveness and company-wide incentives to efficiency, the waiting period should be very minimal if any (Wallace, 1959).

5.3.5 The Main Advantages of Profit Sharing Schemes

Advocates of profit sharing agree that such schemes should lead to benefits for both labour and capital. Their arguments obviously refer to their studies and experiences of the results obtained and

achieved in the successful implementation of such schemes rather than the failures. It is in fact difficult to discover a balanced summary of the experiences with profit sharing schemes. The following will highlight on the main accounts of the advantages of profit sharing schemes.

Metzger pointed out from his study that profit sharing schemes are in themselves a recognition of the worth, dignity, and importance of the individual employee to the company (Metzger, 1964). In operating such schemes management should endeavour to create a climate of cooperation conducive to the growth of both human beings and profits. Moreover, it should set out to create a feeling of partnership particularly in sharing managerial information and responsibility as well as financial gains.

More public declarations of purpose have come from the administrators of large American corporations. The International Administrator of S C Johnson & Son Inc, an American manufacturer, declared in his speech at the 13th International Management Congress in 1963 that:

"One of the businessman's most difficult tasks is to recognize the individual's merit and goals and to find the means of relating the individual goals to the company's objectives ... Profit sharing is one way of dramatizing the 'people' part of the business" (as quoted by Metzger, 1964, p 102).

The management of Sears, Roebuck & Co also saw that:

"Profit sharing has become a unifying principle, a symbol around which the organization revolves; a means of integrating the activities of tens of thousands of individuals in pursuit of the common goal... Profit sharing is a powerful incentive which has given Sears people not only pride in their jobs but also pride in ownership" (Ibid).

In a study carried out by the Opinion Research Corporation, an American market research agency, on employees' attitudes toward

profit sharing suggests that:

"Employees show a liking for the cash and retirement benefits - but put equal stress on the tangible rewards ... feeling of partnership and increased teamwork" (Ibid).

In NICB's survey of 199 companies which had profit sharing schemes, 62 per cent of them reported that the scheme had increased efficiency in the opinion of management, against 22 per cent mentioned they had little or no effect in that respect (Meier, 1957). Some other companies had noticed after implementing profit sharing schemes that there was a sharp decline in labour turnover, a greater expression of employees loyalty to the establishment, improved relationships and understanding between employees and employers.

Meier in his profit sharing manual reports that the following are the commonly reported results of profit sharing schemes (Meier, 1957):

- increased earnings to employees
- increased earnings to stockholders
- reduced selling price of products
- labour turnover sharply reduced - and sometimes eliminated
- strikes and work interruptions greatly reduced or eliminated
- substantial increases in production efficiency
- the reduction of absenteeism and lateness
- decrease in grievances
- better care of equipment - therefore lower maintenance costs
- increased home ownership among married employees
- reduction in reject and salvage material
- an increase in the number of employee suggestions and an improvement in their thoughtfulness and scope
- a waiting list of employment applicants and applicants of a higher calibre

More realistically perhaps, Meier summarizes the main reported results of applying profit sharing schemes as: greater output at lower cost together with increased teamwork and individual responsibility. Moreover, he reports increases in productivity of 40 per cent or more with increases in employees' earnings up to 60 per cent above the average for the district in which the individual firm is located (Ibid). Many of the savings are obtained through the cooperation of workers in avoiding wastes that raise costs, and maximising the utilisation of all facilities.

A survey study by Dun & Bradstreet in the USA which included 1,392 non profit sharing companies and 239 profit sharing companies, indicated that other employees benefits programs are more prevalent in profit sharing companies than in non profit sharing companies as Table 5.9 shows.

Table 5.9

Specific Employee Benefits in Companies
which do not provide Profit Sharing Plans compared
to those which have profit sharing plans

Types of benefits (not tied to profits)	Companies providing benefits	
	Non-profit sharing %	Profit sharing %
Individual incentive, production, or sales bonuses	9.8	69.5
Group production (or cost saving plans	0.8	11.6
Christmas or other cash bonuses	33.7	62.4
Employee thrift plan	0.2	3.1
Pensions or retirement plans	3.6	5.1
Stock option or stock purchase plans	1.6	8.9
None of these	59.5	8.9
No answer	1.8	1.6

Source: Metzger, 1964, p 145.

This was explained by the authors in terms of the contrasting man-management programmes in non-profit sharing companies which did not recognise other important features of long term programmes of labour management, including profit sharing schemes, and those employing the latter as part of a wider package. After recognising the importance of such overall programmes, companies with long term time horizons succeeded in achieving positive results from profit sharing programmes. In other words, profit sharing was often introduced as part of a series of measures designed to lead to more cooperation between management and labour.

Another survey conducted by the National Industrial Conference Board, which included 204 companies, found that 58 per cent of these companies believed that profit sharing schemes had derived important benefits while as many as 36 per cent felt that they had received any noticeable benefit (Brower, 1957). When these companies were asked to rate their experience with regard to employee morale, employee interest in the company's welfare, labour turnover, and increases in efficiency and productivity, the results were positive and indicated the importance of profit sharing schemes in relation to each (see Tables 5.10 and 5.11).

With regard to stockholders' interests, some argue that profit sharing schemes are not just and fair to the owner on the ground that if the labour gets more stockholders get less. The findings of a survey by the PSRF reported by Metzger (1974) suggest that the stockholder who invests \$1.00 in 1952 in profit sharing companies would have been worth \$9.89 by 1969 (counting both dividends and appreciation) while in a non profit sharing company he would have only \$5.61. Metzger believes that such statistical data, coupled with management's evaluations of their



Aston University

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* Many companies listed more than one advantage

Research 1957 53

Table 5.11

Effectiveness of Plan in Improving Morale, in Increasing



Aston University

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profit sharing programmes, would suggest that profit sharing has been an important contributory factor in the exceptional efficiency and growth of these companies.

"We do not share our money profits because we can afford to do so; we share them because doing so enables us to afford it" (as quoted by Metzger, 1974, p 23).

Having mentioned the main perceived advantages of the application of profit sharing schemes, which are difficult to generalise or to be taken for granted, one cannot forget the views of opponents of such schemes nor can one forget that for the mentioned advantages to be achieved, there should be pre-conditions which have to be fulfilled in order to guarantee the success of such a plan.

5.3.6 The Main Objectives and Drawbacks of Profit Sharing Schemes

Although many employers are in favour of profit sharing schemes as a form of worker participation, the majority appear not to accept them in practice. The following objectives have been highlighted by scholars.

(1) Profit sharing schemes are based on the level of value added which is uncertain and may vary from time to time in a way which is not fair to employees (Meier, 1957). Hence the emphasis given in governmental and other statutory definitions upon the bases of remuneration being that of wage payments. Proponents argue that profit sharing is no more than an extra reward to employees, and of course, beyond and above good wages, so it does not tie employees or wages to profits. However, the fact that employers gain an upward flexibility to attract labour through extra rewards in the upturn of the cycle means that profits may be regarded by labour recruited in this way as part of the attraction of the job.

Against this proponents suggest that if there is no profit for several years the company may be out of business and employees, in turn, will lose their jobs.

(2) The high percentage of discontinued and failed profit sharing schemes robs the scheme of its validity (Meier, 1957; Knowles, 1955). Historically it is true that there has been a high mortality rate of profit sharing schemes. There are many reasons behind this phenomena, eg changes in management, financial uncertainty, union's hostility, etc.* These conditions provide contingencies which have to be dealt with in any well designed scheme. Yet the principle itself is not disproven by a failure to take account of these contingencies. Government spokesmen believe this to be true at any rate.

"In more than half the cases of abandoned schemes the cause of abandonment seems, however, to be traceable not to any inherent fault in the scheme as such, but to the falling off of business and to the fact that there were no profits to share" (Board of Trade, 1912, p 3).

"In a large number of cases, the abandonment of the scheme was due to the inability of the firm to earn sufficient profits to make profit-sharing a success, or to some other cause independent of the profit-sharing scheme, rather than to any defects inherent in the system itself" (Ministry of Labour, 1920, p 12).

"Trial and error experimentation with profit sharing is over. Today a properly implemented, practical and workable plan can be adopted. About 94% of deferred profit sharing plans initiated are still in existence" (Meier, 1957, p 25).

(3) Profit sharing is not a good incentive to production. The relationship of reward to each individual employee's effort is spaced too far from the effort and, therefore, there is no stimulant to further production (Flipppo, 1961). Moreover, workers may work hard without getting a reward from profits since there are none, due to many reasons which are not under workers' control.

* for more detail, see Board of Trade, 1912; Ministry of Labour, 1920;

In fact, profit sharing is not designed to be an individual but a group incentive (Meier, 1957). By creating a common purpose and by improving industrial relationships, profit sharing can help to increase the overall productivity and efficiency of establishment through cooperation.

"No matter how much you pay an employee, if he still feels that he is being exploited and that the boss is making an unreasonable profit out of his effort, in which he is not sharing, you will never have his undivided loyalty and effort for long" (Ecke, 1957, p 16).

"Profit sharing does undoubtedly make for increased harmony, better relationships and smoother working. Whilst it is not by any means the best method of stimulating individual effort, it does make for greater efficiency through the feeling of co-operation which it engenders" (Wallace, 1959, p 40).

(4) The employees will consider the payment under profit sharing as part of their normal wages, and therefore, the incentive effect of the scheme will be reduced (Narasimhan, 1950; Meier, 1957; Knowlton, 1961). In fact the payment of profit is rarely distributed as frequently as wages. But generally the evolution of a "wage expectancy attitude depends on how the plan is installed; how it is communicated to; and understood by employees" (Meier, 1957, p 25). So, the problem is the problem of communication and understanding without which the scheme will achieve nothing.

(5) Profit sharing is always introduced by management and often without consultation. It is true that the scheme, in a majority of cases, is a product of management, however, this does not mean that the scheme is bad. Nevertheless, there should be consultation in adopting and implementing such schemes between all parties concerned or the results are likely to be problematic (Knowlton, 1954).

(6) Management can adjust the books to show less profit and as a result the employees can be deceived and given less than they are

entitled to (Meier, 1957). To overcome this objection, communication, mutual understanding and trust is needed. A neutral auditor may help to build such trust. Were it possible for the management to alter or adjust their books the scheme could do more harm than good.

(7) The opponents of profit sharing argue that profit sharing is in one way or the other a form of paternalism and, therefore, it is given for nothing (Ibid). Against this assertion it may be argued that in the application of such schemes employees will not be paid unless there is an extra profit as a result of teamwork and cooperation. In case of a loss employees will have nothing to be distributed to them. Profit sharing, therefore, is not a gift, but it is an earned profit. Some systems such as the well known Scanlon, Rucher or Bentley value added schemes make this a prior condition for distribution.

(8) Profit sharing is introduced and implemented to break or to make weak the relationship between employees and their unions (Meier, 1957; Narasimhan, 1950). It is true that in the past some profit sharing schemes were introduced for this purpose, "... there is no doubt that in the early years some managements used profit-sharing as an anti-union device" (Meier, 1957, p 17). "It was an instrument designed for the sole purpose of preventing the employees from joining a bona fide trade union" (Scanlon, 1948, p 62). Well known examples that continue to flourish and to succeed in this purpose exist in IBM, ICI and Cadbury-Schweppes. Nevertheless, good profit sharing schemes should not have this end in mind. For profit sharing to succeed it seems likely that the climate should be based on a cordial relationship between management, workers and their unions. Communication and consultation before and after the introduction of profit sharing helps to minimise fears of employees

and their unions.

(9) The company must have a stable profit (Ibid). It may be true that before introducing such schemes, the company must make profits. However, this does not mean that this should be a yearly event as a good scheme incorporates a pool of funds against which the results of one year can be matched against those of another year over the long period.

(10) The opponents of profit sharing schemes argue that this kind of scheme is too difficult and complicated to understand and, therefore, it cannot possibly achieve its aims of emancipating workers (Ibid). It is no doubt true that if the workers' understanding of the system is not there the result, if any, will be negative. Understanding and communication are, therefore, necessary for its implementation. In the meantime, simplicity is required in its workings as much as possible to give every employee a fuller understanding of the scheme and awareness of its results.

(11) Profit sharing is always in favour of the higher paid employees as well as those with long service with the company. It is true that the majority of schemes which seek to encourage employees' loyalty to their companies, the systems' rules and the basis of allocation of profits among employees are in favour of employees with long service. Yet, this may accord with the internally adopted criteria of fairness among both workers as well as employers. As against this present wage differentials in many other cases are used as a base for allocating profits to each individual employee. Assuming that the wage structure - as it should - reflects the kind of job responsibility and relative working conditions in the plant then it would be fair to give shares according to relative responsibilities and conditions. These are two competing bases and can be used to allocate profits to each employee.

The company has to choose from the several options, one which will achieve the employer's objectives and which would be suitable for its employees.

(12) It has been said that employees do not share the losses and, therefore, they have no right to share the profits (Wallace, 1959). In actual fact, the employees share in losses very directly in the curtailment of work, layoffs, and the general lowering of economic standards in the organisation and wider community. Moreover, it is common for a company which has a profit sharing scheme to have a special reserve to keep a percentage of profit each year to cover the losses in poor years to their shareholders. Hence the latter may have their risks reduced in a way that is generally not open to the ordinary worker.

(13) The opponents of profit sharing argue that cash schemes do not help in reducing inflation, but they make it worse by increasing the level of consumer purchasing power available (Wallace, 1959). However, as Wallace pointed out, this inflation may be the price for releasing the full power and efforts of employees which - in his opinion - is not fully used yet. If profit sharing increases consumer purchasing power, it is only because of increased productivity so that it is real rather than money wages that are enhanced.

5.3.7 Conditions for Success

From the analysis of the history of profit sharing and the main advantages and drawbacks which have been mentioned, the following conditions may be considered to be necessary for success:

- (1) There must be a desire and full backing from management of the enterprise in order to implement such schemes successfully (Council of Profit Sharing Industries, 1958).

- (2) There must be a good relationship between workers and management before adopting such schemes: there must be considerable doubt that it would succeed if mistrust prevails in the company (Meier, 1957).
- (3) Joint consultation is very essential from the very beginning to ensure cooperation between all parties concerned and to eliminate conflict of interests. In addition, joint consultation and joint committees are necessary to consult on operating problems, distribution of profit, revisions in the formula, inspection of company's financial books and records etc. These are needed to guarantee full understanding and trust between both parties (Chruden and Sherman, 1968).
- (4) An effective employee educational programme is necessary otherwise the plan may be expected to fail (Flippo, 1954; Narasimhan, 1950). It is necessary that employees should know and care about the scheme and its administration. They have to have an awareness of company profits, and of course its relation to their individual effort.
- (5) It must be clear for all concerned that the scheme is not a part of wages or even as an excuse for paying lower wages and not individual incentives. Instead, emphasis should be placed on a partnership and common interests (Narasimhan, 1950; Metzger, 1964).
- (6) The scheme must be tailored and adapted to fit each company's own climate and not be copied without study (Chruden and Sherman, 1968). In addition, simplicity is required so that employees can understand it easily and what is meant by its various parts.

- (7) The company must have a stable history of profits and not be subject to violent fluctuation or the scheme will bound to fail (Knowles, 1955).
- (8) There must be a regular review of the scheme and modifications made if needed, and if both parties agree to it. In general the scheme must be dynamic both in its technical details and its administration (Chruden and Sherman, 1968).
- (9) The scheme must be operated under a democratic type of management styles and it is better if accompanied with forms of participation in management (Ecke, 1957). So conflict will be eliminated and partnership spirit prevail.
- (10) It should be presented to employees as a matter of fairness and not as paternalism (Ecke, 1957; Pigors and Myers, 1965).

In general, "Profit sharing is a tool, and like any tool, it is as good as the skills of the user", as pointed out by Metzger (Metzger, 1974, p 23).

Conclusion

The conditions laid down by scholars and consultants who have studied the operation of profit sharing schemes seem to confirm that they may be seen as one of two forms of management strategy. The first is a short term attempt to handle conditions of crises brought about by rising costs and increased competition in the product market. In these circumstances, profit sharing may be seen as part of an attempt to gain flexibility in the use of labour and greater control over labour costs. There is, however, a longer term strategy in which profit sharing is part of a broader approach to human resource management adopted by large corporations with

sophisticated and longer term methods and modes of management.

These latter schemes are, as far as can be seen from the records, more long standing and more likely to meet the conditions of trust and stability in relationships propounded by advocates of profit sharing.

CHAPTER SIX

Compulsory Profit Sharing Schemes with Special Reference to Yugoslav's Experiment

Introduction

As can be gathered from the previous chapter, profit sharing schemes were first introduced in Western capitalist countries. In the majority of these countries the schemes were applied, and still are, by voluntary agreement between capital and labour, or between capital and trade unions representing labour. However, in some cases governments encourage entrepreneurs to apply such schemes by giving them special tax concessions. Some Western countries such as France have taken a number of statutory steps towards encouraging such schemes in earnest, at least since 1968 (Berry, 1974; Balfour, 1973; Reynaud, 1979).

But profit sharing is not only to be found in voluntary forms. Developing countries especially those which can be described as socialist, apply it in a range of different forms and across both State ownership, social ownership nationalization and private ownership, eg Syria, Egypt, Iraq, Chile, Yugoslavia, Colombia etc (Narasimhan, 1950; Al-Kassab, 1977). It may also vary in terms of the structures of control operated in the enterprise. Management may be carried out by the workers themselves or by their representatives on the company board or through a conventional hierarchy of authority. Generally, however, compulsory profit sharing schemes accompanies some formal arrangement for worker participation in management.

Is there a difference between voluntary and compulsory profit

sharing schemes? The following chapter will discuss and throw light on the compulsory profit sharing scheme in Yugoslavia. This country has applied a profit sharing scheme since the 1950's which accompanied by a social ownership of the means of production and self-management. The application is hoped to achieve the social, economical and political objectives of the nation which were laid down by the political elite. The objectives in the long run were supposed to bring about a socialist society and rapid industrial growth, both of which will guarantee the political stability of the new independent country.

Section One deals with the social, economic and political background of the profit sharing scheme and self-management, since the scheme cannot be understood in isolation of these environment. Section Two is devoted to clarify the main objectives, the characteristics of the scheme in its present shape and the problems of implementation. Section Three will provide an attempt to evaluate the compulsory application of such schemes in a socialist context. Finally, Section Four will summarise the main differences between voluntary and compulsory profit sharing schemes.

6.1 Background

On the eve of the Second World War, Yugoslavia bore all the marks of an undeveloped agricultural country. More than three quarters of its people lived on the land (Yugoslav Embassy, 1979). The proportion of the active population in agriculture was 79 per cent before the War (Yugoslav Embassy, 1978B). Agriculture was the main economic sector, and the little industry that had been established was largely under foreign control (Fahmy, 1966). Also, most Yugoslav workers were of peasant stock and the majority of them have

probably only left the land since the War (Jovanovic, 1966). The annual growth of national income from 1926 to 1939 averaged 2.1 per cent which was only slightly higher than the rate of population increase (1.5 per cent)(Yugoslav Embassy, 1979). Not only did Yugoslavia possess very little industry before 1939, but it was only one of the European countries which suffered most in the War. A great part of its productive capacity was destroyed. Yugoslavia lost 11 per cent of its population and 17 per cent of its national wealth: 21 per cent of its buildings were gutted by fire; 24 per cent of agricultural areas and 36 per cent of industry were destroyed (Yugoslav Embassy, 1978A).

All these set backs created great difficulties after liberation (Fahmy, 1966). Although there were severe shortages of means and materials Yugoslavia started to build up itself with very high speed. In less than two years and by the end of 1947 Yugoslavia increased its industrial output by 20 per cent (comparing it to 1939)(Yugoslav Embassy, 1978). Concurrently with growth there were political, social and economic changes including various forms of expropriation from the bourgeoisie and through agrarian reform (Jovanovic, 1966).

The political construction of post-War Yugoslavia was created first by an Act of February 1945 which changed all the legislation in force before the War. After the War there was state ownership, a strict chain of command from the top downwards, concentration of power in the hands of the political executive, and centralised planning and administration of the whole economy (ILO, 1962; Lago, 1971). In other words, a system similar to the Soviet one was introduced (Yugoslav Embassy, 1978A).

In fact, prior to 1949 the Yugoslav Communists regarded the socialist state as the builder of a socialist society in the Stalinist sense. This belief was reflected in the establishment of a rigidly centralised command economy on the Soviet model. As described by a leading Yugoslav authority at that time:

"Just like our army, our economy - and especially our industrial production - demands a single line of command - ie sufficiently authoritative leadership ..." (as quoted by Johnson, 1972, p 159).

In addition, after the nationalisation of private property, the State took over the property rights of the former owners and exercised them in the name of society (Miester, 1965).

But there were many disadvantages and drawbacks to such kind of planning and ownership. An international Labour Office (ILO) mission to Yugoslavia pointed out some of the drawbacks and reported them as follows:

"The proliferation of bureaucratic machinery, the lack of balance in the production and distribution of goods owing to the lack of economic incentives. The growing reliance on administrative measures and penalties aroused particular concern. Moreover, the system gave production workers little chance of expressing their views in the face of the planning directives and the authority of the single "operational chief" who alone had power to interpret and enforce them" (ILO, 1962, p 2).

Yugoslav's leaders soon discovered that such systems which had been copied from the Soviet Union were unsuitable for achieving their objectives (Jovanovic, 1966). For example, one of the leading Yugoslav Communists declared that these were reducing the rights of the people and suggested that:

"The vigorous and rapid expansion of state control in all spheres of public life must be checked because it threatens to undermine the power of the working class" (Business Week, 1969, p 108).

By this time the Head of the State, President Tito, considered the "State ownership only as the lowest form of social property ... only indirect socialist property" (as quoted by Johnson, 1972, p 163).

Besides the drawbacks of central planning and State ownership there was also a growing conflict between Yugoslavia and the Soviet Union about the necessity of finding new approaches. In 1949 the conflict between the two countries reached a peak. Blumberg gives the main reasons behind this conflict as follows: (Blumberg, 1968)

1. The Soviet Union's frustrated help for the Partisans both in the political and military sectors during the Second World War, and also their disappointing support for Yugoslavia in Trieste in 1945.
2. The liberation of Yugoslavia by the Partisan without any help from the Red Army gave Yugoslavs the pride and encouragement for self dependency.
3. The appalling behaviour of Russian troops (such as assault, rape, murder and widespread looting) towards the Yugoslavs on their soil in 1944 was a shock to the Partisans who had always idealised the Red Army.
4. Personality conflicts and misunderstanding which developed between Stalin and the Yugoslav leaders.
5. An attempt by the USSR during the post-War period to dominate, control and exploit the Yugoslav economy by means of the so-called joint stock companies, which included other East bloc countries.

The new legislation in 1950 whereby the self-management system,

social ownership were introduced has then to be seen against this broader political conflict. But other reforms that took place in 1953, 1958, 1963 and 1965 reinforced and accelerated an internal impetus to reform generated after this initiative had been taken.

(A) Political System

The political life of Yugoslavia is based on two organisations having a common ideological basis: the Socialist Alliance of Working People, and the Communist League. The Socialist Alliance of Working People is an ambitious attempt to associate all citizens in the working of public life. Among its group members it includes organisations such as the Communist League, the Trade Unions, the Youth Organisation, while the bulk of the membership is made up of individual citizens (ILO, 1962; Jovanovic, 1966). The Alliance is centred on the local commune and most of its operations are at this level. Its principal purpose is to encourage initiatives by its members and other citizens in solving political, economic, social problems in the community (Miester, 1965). Its task is described as that of strengthening direct democracy and socialist social relationships.

The Communist League is the more powerful organisation in directing the political and ideological orientation of public life (Fahmy, 1966).

"... the task of the League, as one of the group members of the Alliance is to give ideological guidance in the process of Socialist development ... but this does not confer any special prerogatives or privileges on the members of the League - their rights are the same as those of any other members of the Alliance" (as quoted by ILO, 1962, p 32).

The ILO mission describes the League programme as laying down very general principles for political action. This did not, however,

extend to the adjustment of each undertakings economic targets, or even at the level of each department or workshop (ILO, 1962). There was in fact formal political decentralisation which is implemented by means of communal government (Wachtel , 1973). A number of observers have commented on the unofficial influence that League members have at all levels of economic decision making (Wing, 1971).

(B) Economic System

There is a social ownership of the means of production and a comprehensive planning of economic resources. Social ownership does not mean that the working people become the owners of the means of production, but they will enjoy the rights of the owners.

"Property is socially owned, rather than privately owned or state-owned. Ownership rights are theoretically possessed by all the citizens, who delegate authority for managing the socially-owned property to autonomous enterprises - the workers' councils and the management boards. From this system of enterprise management the term 'workers management' is derived" (Kardelj, 1960, p 8).

Public ownership covers the whole of industry, mining, building, retailing, transport and communications, hotels and restaurants, municipal services and cultural facilities, but it is very limited in agriculture (ILO, 1962). The relation between planning and free market is described as:

"Under our system of self-management by the producers; it is for the market to tell the undertaking whether or not it has succeeded in obtaining social recognition for its labour ... Nevertheless, freedom for each undertaking on the market in no way means that it can act in isolation or arbitrarily, nor does society waive its right to direct according to a plan in order to meet such needs as have arisen ..." (as quoted by ILO, 1962, pp 36-37).

Vanek has described the Yugoslav economy as a labour-managed market

economy in which:

- (1) Enterprises controlled and managed by both blue and white collar workers.
- (2) Income is equally shared and governed by a democratically agreed on income distribution schedule.
- (3) There is full reliance upon the market mechanism to allocate resources.
- (4) Members of the collective do not have full ownership of the capital assets which they use.
- (5) There is freedom of employment.

(C) Social System

The Yugoslav main social aim of the system is to provide remunerative work for everybody including social security benefits, family allowances, free medical services and other fringe benefits (ILO, 1962; Yugoslav Embassy, 1964, Jovanovic, 1966). Self-managed enterprises have considerable autonomy in the development and adoption of the different welfare services to meet their desires and circumstances. Such decentralisation in the social system is seen by Kardelj one of the leading Yugoslav theorists of self-management as central to the system:

"At the top, a small apparatus, highly qualified and subordinate to the central representative organs, with its rights and duties strictly defined. At the bottom, in the sense of 'commune' of Marx, the real basis of social activity, the social organs of the districts, localities, factories, institutions, etc ... and as the center of gravity for all of these, a qualified apparatus of professionals responsible to the social organ and fulfilling its tasks within the framework of strictly determined rights and duties" (as quoted by Blumberg, 1968, pp 180-181).

6.1.1 Self-Management or Workers' Management

The year 1950 marked a turning point in the modern history of Yugoslavia. On 27 June of that year the basic law on workers' management was passed and this was the starting point of a long series of reforms designed to transform the country's political, economic and social structure. The adoption of the Act was considered by the leaders more significant than the immediate post-War nationalisation measures (Jovanovic, 1966).

In fact, in deciding to place the factories into the hands of the workers the Yugoslav leaders believed that socialism could not be performed or achieved without workers (Miester, 1965; Dolance, 1979). The introduction of workers' councils in all undertakings was at that time only in an advisory capacity because central planning continued to set relatively precise targets for the production of goods and services at all levels of the economy.

It was not until 1952 that workers' management was actually introduced into the economy (Dunlop, 1959). Controls on prices, raw materials and the distribution of goods were gradually lifted in that year (ILO, 1962), and the principle of relating workers' income to the financial performance of each company was created (Yugoslav Embassy, 1964B). The Sixth Congress of the Yugoslav Communist Party in 1952 urged that "the rights of direct producers should be further enlarged". The Congress ended by agreeing the necessity to enlarge and increase the rights of direct producers (ILO, 1962). In support of this statement, on 13 January 1953 there was a new constitutional law laid down and confirmed these

principles, particularly Article 6 as follows:

"Art 6. Self-government by the producers in the economy consists particularly in the rights of the working collectives to manage their economic units directly and through workers' councils, assemblies of agricultural cooperatives and other representative bodies which they themselves elect and recall;"

"The right of the economic unit to fix independently its economic plans; the right of the economic unit upon the fulfilling of its obligations to the social community to dispose independently of the income of the unit, and in this the economic unit is guaranteed a minimum provided for by the law; the right of the economic unit to fix within the limits of its income the earnings of its workers, and in this the workers in economic enterprises are guaranteed by law minimum earnings from the resources of the social community;

"The right of the producers to determine, through their representatives in the councils of producers, the amount of material funds to be set aside for meeting social requirements and to decide on the utilization of these funds.

"The producers exercise the rights of self-management on the basis of the constitutions and the laws and within the framework of the economic plans;

"The working collectives acquire their self-governing rights by the very act of founding an economic unit" (as quoted by ILO, 1962, pp 6-7).

During that year and until 1957, workers' management developed rapidly and extended to include a number of new industries, commerce, handicraft and railways (Fahmy, 1966). Furthermore, the Yugoslav's economy adopted the new systems ie the State Bank was decentralised, a chain of municipal banks was formed, specialised investment institutions were set up, the credit and tax systems were reformed (ILO, 1962). All with the aim of giving the collectives a direct incentive to make the best use of the assets under their control and enable the local authorities (districts and communes) to benefit from the earnings of the undertakings within their area as part of

the extension of their supervisory powers in the economic and social fields (ILO, 1962). However, as far as profit sharing and remuneration schemes were concerned there were many restrictions in this period and that may be seen to have led to weakness of the economic basis of workers' management (Yugoslav Embassy, 1964B).

The next significant development of workers' management was adopted in 1957. At that time Producers Councils were established which gave a new dimension to workers' management in that the communes were given more power to settle most of the public and economic issues (Kardelj, 1955). At that time also due to lag in personal consumption compared with other forms of consumption which was slowing down the country's general economic development workers were given more freedom in each enterprise to share out the whole of its income (ILO, 1962). In the next year the first National Congress of Workers' Council was held in Belgrade and called for more freedom and independence for the undertaking and for increasing the power of Workers' Council. Those partaking in the congress thought that the only way to increase personal consumption and raise the living standards was through the individual undertakings (ILO, 1962; Jovanovic, 1966). The point was taken up and endorsed by President Tito. Following this Congress in 1958 there were further statutory extensions to profit sharing (Wachtel, 1973). A new national constitution adopted in 1963 gave more power to workers' management, and in 1965 and 1966 the Law of Enterprises and the Law of Employment Relationships abolished central control and freed undertakings to tangle with each other in a competitive marketplace. Rigid State-run central plans were abandoned and business-tax were cut. Barriers to foreign trade and competition were reduced sharply (Fahmy, 1966; Wachtel,

1973; Miester, 1965).

6.2 Profit Sharing Scheme

The Yugoslav's profit sharing scheme may be considered as a unique example of compulsory profit sharing schemes. It has been introduced as a part of a complex system of social control in which the role of self-management has to be linked with that of the political process within the League of Communist. The profit sharing scheme cannot be looked at in isolation of the interacting influence of the political, economic and social systems and its overall objectives of achieving rapid industrialisation and socialist society.

Certain assumptions emerge from these circumstances underlining the application of such scheme. Viz:

- (1) The Yugoslav system is based on the assumption that although Yugoslav society constitutes a number of groups and various sectors they all share one common interest and objective that is to achieve (a) a socialist society and (b) rapid industrial growth.
- (2) The application of self-management and profit sharing would dissolve all class discrimination and more particularly discrimination between labour and capital, and management and workers, since the worker himself is at once the owner, manager and producer. The only difference would be in the amount of work performed by each individual.
- (3) Within the Yugoslav self-management enterprise there is a balance of power, neither management dominating workers nor

workers dominating management. Moreover, there is no substantial difference in influence between one worker and another, skilled or unskilled. Each has his assigned role in the organisation, each role being contributory to a total leading to the achievement of the objectives of the enterprise. Each worker, therefore, has the right to share in the management of his organisation and decision-making.

- (4) Arising from the above assumption there is no opposition to the management in the implementation of decisions but rather unquestioned compliance. Thus the management is able to achieve the aims of the organisation without any obstruction. Consequently, social control is built on moral involvement.
- (5) Self-management is fully approved and accepted by the workers, and each worker plays an effective part in management and is able to carry responsibility. This desire to take part in decision-making and self-management will not decrease over time but rather will increase with the experience gained.
- (6) Together the characteristics of self-management - no worker discrimination and the profit-sharing itself - leads to a termination of worker-alienation resulting from the factory system of production and industrialisation.

In the meantime, by introducing such schemes, the Yugoslav's leaders hoped to achieve a common interest and freedom for market choice. With absence of private ownership and workers enjoying the rights of management, it seemed that the profit sharing scheme could achieve a special kind of social control together with incentive systems inside enterprises. In addition, the workers would find it

in their interest to increase productivity and efficiency to achieve better working conditions and income. Moreover, such a system hoped to bring about a complete change in relations between the members of the collective. Hierarchical and disciplinary relations to give way to "comradely relations" founded on a community of aims and interest. Finally, such a system would help in achieving one of the main economic objectives of Yugoslav economy - that is the maximisation of workers' income. The following will illustrate and discuss the main characteristics of Yugoslav's profit sharing scheme and distribution processes in order to find out whether it succeeded in achieving its main objectives.

6.2.1 Distribution Process

The present scheme was not introduced overnight but it was the outcome of experience acquired over a long period. Since 1952 the system had been considered the main feature and characteristics of self-management. However, there were many modifications, alterations and reforms that had taken place ever since. These reforms aimed to give the self-management enterprise more freedom in distributing its income and to establish a closer connection between workers' income and their enterprises income than before (ILO, 1962; Yugoslav Embassy, 1964; Kardelj, 1960; Wachtel, 1973). Moreover, workers' income is no longer to be considered as an operation cost; it is regarded as the part of self-management enterprise's income received by its workers after payment of other costs (Kardelj, 1960; Miester, 1965; Wachtel, 1973).

However, some scholars and writers see the workers' wage in Yugoslavia, as still in practice to be comprised of two parts: a fixed

wage and a variable wage. For example, Wachtel (1973) points out that a fixed wage is defined as that payment which the worker periodically receives as a result of his own labour output, and a variable wage represents that amount which the worker receives at the end of an accounting period as a supplementary wage payment out of current profits of the self-management enterprise. Wachtel provides some evidence for the continued use of the two-wage system in Yugoslavia such as enterprise rules for the distribution of personal income which contain separate sections for the distribution of a fixed and variable wage. Under these the enterprise may continue to treat fixed wages as a cost deducted from gross receipts and to deduct the variable wage from profits (Ibid).

Historically, the legal basis for wage payment is codified in three provisions of the 1966 laws concerning employment as follows (Vanek, 1972):

- (1) The workers' income shall be fixed by the enterprise on the basis of the money available for distribution at the end of the fiscal year.
- (2) In the course of a year a worker shall receive advances on his personal income, depending on the current results of work operations.
- (3) A worker shall be entitled to a minimum personal income, irrespective of the results of the enterprise's work and operation.

It is the second basis for remuneration that is open to the operation of personal comparisons in the labour market and the third that may be used to bring political institutional forces into play.

Vanek has summarised the Marxian theoretical framework from which these rules of self-management system has evolved.

"Labour is the source of all values. Through their work in the enterprise, the associated workers produce commodities, the value of which is socially acknowledged only if and when they meet real requirements of the society ...

"... the socially acknowledged value of the commodities belongs to no one but those who produced it, and they are entitled to share it out among themselves according to their work. Before doing so, they must provide for the general needs of society: for the replacement of the fixed capital used in the process of production, for the expansion of future production by means of additional investment, and for their own common or welfare needs. The capital they use in the process of production being the result of accumulated past labour, placed at their disposal by society, they may owe to the latter a special contribution proportionate to its volume, and corresponding to its relative scarcity ... the residual income includes both the basic value of their labour, as measured by the cost of its simple reproduction, and any surplus due to their particular effort at work ... The two components, analogous but not identical to wages and profits under capitalism, are inextricably merged in one whole: the income of the work collectivity. The latter is to be shared out freely by its members, on the basis of full equality and according to everyone's part in the production process ..." (Vanek, 1972, pp 116-117).

There are many stages and procedures to be followed in the Yugoslav distribution system (ILO, 1962; Yugoslav Embassy, 1966; El-Itify, 1968; Vanek, 1972; Milenkovich, 1975). But for the purpose of simplicity and illustration this study will classify the distribution system in three main stages which have been suggested by the ILO (1962)(see Figure 6.1).



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Figure 6.1 Distribution of Total Income of Undertaking

Source: ILO, 1962, p 208.

First Stage: Gross income, deduction of operating costs

At the end of the fiscal year each company prepares its final accounts and balance sheet which shows the financial results of and gross income from its operations during the previous year. From that total gross income each company has to deduct the operation and material costs (all non-labour costs) to calculate its net income (ILO, 1962; Miester, 1965; Vanek, 1972).

Second Stage: Deduction of income tax, allocation of net income

After the calculation of the company's net income, the income tax - according to Yugoslav law - should be deducted from that sum before any distribution is to be made. Income tax is payable on that part of the company's income which exceeds by more than 20 per cent the total guaranteed minimum remuneration of its workers (ILO, 1962). This total is obtained by multiplying the guaranteed minimum rate for each post by the number of hours worked by its occupant.

The Yugoslav income tax system is considered to be of a progressive nature. So, it is highest where the net income after the guaranteed minimum remuneration is high and vice versa (ILO, 1962; Yugoslav Embassy, 1964 B).

However, in order to increase the incentives* for each company to increase its productivity and reduce production costs the legislation provides for a rebate of from 50 to 70 per cent on the

* In fact, income tax has many purposes other than the incentive aspect. For example, it is used in achieving common needs of the workers which cannot be achieved on company level ie material defence, education etc, and as a means of control over companies, and to limit the inequality of income etc.

part of the total income tax relating to increased profits over the preceding year (ILO, 1962). So, if no change occurs in any aspect and yet the company increases its output (say by reducing labour involved) it can as a result recover half or more of the tax on the increase of its income.

In addition, in case of industries which are unable to achieve sufficiently high earnings per worker because of their special nature (eg the post office, railway etc) they have been provided, by legislation, with special income tax rebates. However, these rebates cannot be used for remuneration but are only to be allocated to an undertakings funds (ILO, 1962; Miester, 1965). Moreover, in the case of opening a new branch, factory, launching a new product, or implementing a new technique there is a special kind of tax rebate (ILO, 1962). This rebate is usually in most cases given for the first six months, and in others it could be extended (Ibid; Yugoslav Embassy, 1964B).

After calculating and deducting the income tax from the net income as mentioned above, the remaining net income (after tax) has to be divided mainly into two parts: workers' income (remuneration funds) and undertaking funds for broadening and increasing the material basis of its activities.

"... To distribute the income of the working organization and to provide the material basis for its work; to distribute income and to meet the obligations toward the community ..."
(Wing, 1971, p 23).

However, in this stage as well, the self-management bodies have to decide how far this profit is due to the normal efforts and operations or to special operating circumstances (eg monopoly).

The latter (artificial profit) should not be shared out as remuneration but must be used for development or to build up the companies' reserves (ILO, 1962; Miester, 1965; Vanek, 1972).

Third Stage: Distribution of remuneration among the members of self-management enterprise

According to Yugoslav law, when the sum to be distributed in the form of remuneration has been fixed by self-management bodies, it is shared out among the members of the enterprise under the terms of the relevant remuneration rules (ILO, 1962; Miester, 1965; Yugoslav Embassy, 1964). Normally, each member's share is calculated in accordance with the number of hours spent at work or his output, plus any extra payments due for overnight, overtime etc, bonuses and his share in any surplus. Deductions for social security and housing funds contributions and personal tax are made at the source (ILO, 1962).

However, the rules of distribution can vary from one company to another. The worker's share may be determined only on a broad manner at firm level leaving the detailed procedures to be applied inside each department or workshop according to their rules (Ibid; Yugoslav Embassy, 1964B). Or it may be determined in detail to govern the distribution process throughout the plant until it reaches the end of calculating each worker's share. In fact, whether or not these rules are of a general nature or are detailed is dependent on the size of the company and its desire to distribute the remuneration fund centrally or to decentralise to the departments and autonomous unit levels (ILO, 1962).

"Under the current regulations the general pattern of distribution may be altered to fit the circumstances. Undertakings have sufficient freedom in their choice of

remuneration systems to be able to alter the over-all pattern in any respect" (Vanek, 1972, p 129).

The theory behind the decentralised distribution is that since the self-management bodies at the departmental level can only exercise real managerial power insofar as they are financially autonomous, the right of the department collective to appropriate the income it has created and to share it out among its members is an essential factor (Yugoslav Embassy, 1965).

The distribution of remuneration funds is dependent first on the central sharing out of the available funds among the departments or workshops in accordance with the performance of each, and second on the internal distribution of each department's share among the individual members.

Remuneration may be directly related to production costs system in cases where a decentralised distribution system is applied (ILO, 1962). This system (remuneration related to production costs) implies a financial plan giving a breakdown of costs for each department, workshop or work group including cost of raw materials, power, and the cost of labour calculated at the rates laid down in the enterprise's rules. These production costs, together with the prices of the finished products, are worked out for the period covered by the plan (Ginith, 1965). The workshop or work group receives an income based on the volume of output and the planned prices of products; any additional income produced by savings in costs is shared out among the members in addition to their planned remuneration (Ibid).

Whether or not the centralised or decentralised method of distribution is followed, every enterprise and undertaking has to classify all its jobs into categories for the purpose of remuneration. There are many kinds of classification which a company may follow. Vanek pointed out that jobs are often classified into four categories:

"according to the skill or training levels required for its performance: unskilled, semi-skilled, skilled and highly skilled for manual workers; and low, medium, higher and high level of training for the non-manuals; categories corresponding to the difference between ordinary labourer or handyman and a fully-trained craftsman; and between primarily school and university training to individual jobs being further differentiated within each category" (Vanek, 1972, p 130).

6.2.2 The Main Features of Yugoslavia's Profit Sharing Scheme

(A) Worker's share in the profit

According to Yugoslav legislation the workers have the right to share out their companies' profits freely without any obligation or restriction. There is no fixed percentage, sum, or limit for each worker's share in this profit. However, the worker's share varies from one to another. The reasons behind these variations are the result of the differences between workers' jobs inside the company based on the differences in skills, and responsibility, experience and level of education. These variations are not only inside one company, but may occur between one company and another. According to law, each company has the right to determine its rules of distribution which reflect a variation between employees' share in different companies. There may also be, according to Yugoslav law, a redistribution of the remuneration fund between company's departments and workshops and the latter in turn is free to determine their special rules of distribution.

(B) Determination of worker's personal income

According to the self-management and distribution legislation each company has to determine first of all its net income after deducting all expenses. Formally the workers' income is not to be considered as part of operation costs, but it is only a part of the company's profits. After that there should be a calculation of income tax and the remainder will then be divided into two main parts, one representing the sum which will be added to company's capital, investment and to the operation, and financing of the welfare programmes for workers; the other part is the remuneration fund which will be distributed in cash to employees.

Income tax must be deducted first and before any distribution. Moreover, companies are not allowed to distribute their non-commercial profits or even use them for remuneration purposes but they must be re-invested in the company. Both devices may be used to control the amount of earnings distributed to employees and the presence of communist activists on producer boards acts to reinforce the priority given to investment needs over those of private income.

(C) Methods of distribution

According to Yugoslav profit sharing scheme, workers receive their share in profits in two forms: cash, and social services. For the first part, workers receive in advance each month or period the minimum guaranteed sum, which varies from one worker to another. And at the end of the fiscal year each worker's share in profit during the previous period will be calculated and the differences between what each worker got during that period and what his share is will be paid out to him, assuming that there is a surplus and

money for distribution at the end of the fiscal year.

As for the second part, each worker benefits from a welfare programme, and from social, housing, health and educational services, on the level of companies and community.

(D) Time of distribution

As mentioned above, there is no fixed time for distribution of profits to workers. However, it has been noticed that each worker receives, in advance, part of his share - say each month or quarter - and the rest at the end of the fiscal year. In other words, the time of distribution may be monthly (as a replacement of wage systems). In addition the rest or the differences between what he receives and his share will be paid to him as a thirteenth month.

(E) Rules of distribution

According to Yugoslav profit sharing scheme, each company is free to set rules of distribution for its workers. There is no restriction on that right and each company is free to decide what is suitable to its circumstances.

So, one company may put detailed rules which will govern the distribution process and the way each worker gets his share. Another may redistribute its remuneration fund between departments and workshops: each share in turn will be redistributed at that level. But whatever the differences between companies in that respect may be, there are general rules which will be followed in deciding each worker's share.

First of all, distribution should be according to the work done. The main basis for distribution is the amount of each worker's work which represents his contribution to the company's profit.

Secondly, distribution should be in accordance with category. Usually each company decides a scale for these categories in the form of scores and points. For example, 200 points for highly skilled while for unskilled 50 points only. So in the same job workers could vary in their share according to their skill-scale.

Thirdly, the job of each worker is considered: is it manual or non-manual, is it managerial or not. In fact in most companies, after determining their skill-scale, jobs in each category are further classified. For example, if the company decides to have 200 points for high skill grade and supposing that their workers are only manual and non-manual workers, the company may give to non-manual workers 200 points while for manual workers 100 points and so on.

Lastly, in addition to the previous rules and basis of distribution, a company takes into consideration the level of education and experience of their workers in determining the worker's share in profit in the same way as with the other rules.

6.3 Evaluation of Yugoslavia's Profit Sharing Scheme

6.3.1 Problems Associated with the Application of Profit Sharing Scheme

Yugoslavia's self-management and profit sharing has been in application for more than 29 years and during this quite long period it is not surprising some problems common to all industrialising

countries have been experienced.

Many writers and scholars on the subject wrote on the basis of observation; others wrote their expectations of the problems which would face the Yugoslav's system. However, it may be noticed that the problems and difficulties that have arisen vary greatly from one enterprise to another, from one commune to another and that experiences have often been contradictory.

There is, however, an implicit contradiction between the existence of a government defined welfare function and the type of maximisation of community utility that is obtained through the operation of the free market. Blumberg, for example, points out that since the introduction of profit sharing some firms have artificially reduced the size of their workforce to increase profits shares for the remaining workers. This was a contributory factor in leading to a fairly serious unemployment situation during the early 1950s (Blumberg, 1968). However, the ILO stated that the targets for new placements in productive jobs were each year greatly exceeded. They noted that during the 1956-1959 period the volume of employment in self-management enterprises rose each year by about 150,000 to 160,000 (or about 8 per cent per year), as compared with the target figure of 107,000 under the Five Year Plan and in 1960 the increase in the labour force exceeded 200,000 persons (ILO, 1962).

It has also been noted by the Economic Commission for Europe that "it also seems to be generally agreed that the present built-in incentive to seek personal profit have not outweighed the feelings of solidarity that have grown up among the personnel of enterprises and which make Workers' Councils reluctant to eliminate redundant labour so long so as there is some profit to distribute

and hope of future expansion" (as quoted by ILO, 1962, p 244).

However, Todorovic indicates clearly that like all capitalists, the workers find it in their interest to keep their members as few as possible, because the newcomers will share in the profit. In his opinion, that can signify a tendency toward the creation of unemployment (Todorovic, 1963). More recently Blumberg stated that:

"There is unemployment on a fairly large scale which has been partly responsible for the scattering of several hundred thousand workers - mainly unskilled and semi skilled - abroad in search of work" (Blumberg, 1968, p 223).

Other kinds of problems which may face Yugoslavia are the result of the ultimate authority in the hands of people who are not necessarily expert in financial aspects, and the lack of any objective evaluation of the financial position of an enterprise by an outside agency. Wing (1971) argues that the absence of any objective evaluation of the enterprise's performance and financial position by an outside agency sets up a potentially damaging situation.

"Conversations with the executives of several firms revealed that an alliance between two or three key executives would permit such a group to readily siphon off large amounts of cash from the firm with little chance of quick detection" (Wing, 1971, p 26).

He points out that for the Workers' Council to be able to judge the performance of its executives, it must rely on reports and information prepared by them. In order to demonstrate their efficient performance, managers may produce information about high earnings and expanding sales revenues etc in one way or another, thus providing the evidence to support their own

position (Ibid).

In addition, Wing notes that the fact that Workers' Councils are under no obligation to distribute any profits to workers it could significantly reduce an enterprise's ability to finance expansion from its internal resources. This, in his opinion, could significantly retard the economy's growth in the near future (Ibid).

"Councils in the firms where my academic colleagues had knowledge, were said to be notoriously reluctant to withhold any significant portion of the enterprise's earnings from the workers. The vast portion of capital projects ... are financed through the long-term bank loans; if such capital is not obtainable, the project is not implemented" (Ibid, p 28).

Another kind of problem was connected with Yugoslavia's distribution system. It has been noticed that this system led to the increase of the gap between different group's income. Income gaps have widened between skilled and unskilled workers, between the richer, industrial north, and the poorer, rural south (Business Week, 1969). Other kind of problems which may face Yugoslavia are the result of the conflicting interests of the various workers' management bodies, groups of individuals and of society as a whole. The ILO study gives examples:

"Such conflict may, for example, be connected with the division of power between workers' management bodies and the bodies that are responsible for representing society as a whole; ... with fixing the share of the national income which undertaking should be allowed to dispose of or the way in which society's share should be deducted so as to reduce direct interference by the State and the administration to a minimum. Other problems may arise through sufficient development of the whole or part of the economy and to pressure or imbalance that may result in certain cases ... In practice there have also

been problems either because of the insufficient progress made by workers' management in some undertakings or because of what is regarded as undue insistence on dependence which is apt to take the form of 'selfish' or 'self-centred' attitudes on the part of some collectives ... " (ILO, 1962, p 276).

A Yugoslav author compiled a number of "deviations" which received mention by the ILO for, at least, their so-called "documentary value". The list of these drawbacks of the system is as follows: (quoted by ILO, 1962, pp 277-279).

1. The technical and administrative levels are those which possess the actual power while the workers' management is simply a shield for their activity.
2. An excessive, but natural, reaction against the staff of the preceding period, removing or reducing them even if this was incompatible with the sound operation of the undertaking.
3. The tendency of social organisations (unions or the Communist League in particular) to perform the parallel role of self-management bodies in dealing with the same problems and attempting to solve them directly.
4. Anarchist tendencies in workers' management (distrust of principles of social organisations; lack of discipline or respect of superiors and prerogatives of workers' management bodies etc) found especially in new influxes of land and craft workers who adjust only slowly to the necessities and requirements modern enterprise.
5. The emergence of privileges in the workers' management bodies which is in basic conflict with the workers' management principles.

6. Neglect of the human factor due to emphasis on machinery and production techniques, and sole concern with current issues due to not looking beyond a term of office.
7. Fraud and corruption on the part of individuals making the collective suffer both materially and morally.
8. The particular good of the undertaking may sometimes be given priority over the common good without thought for the consequences.

In addition to the above-mentioned problems and drawbacks, it is the researcher's view that there are a few more disadvantages to the Yugoslav system. Some communes are better off than others, hence the sum contributed by enterprise differs from commune to commune. This in turn may affect the workers' share in each company and will give some workers a bigger share than others in other companies, even in the similar jobs. Another drawback is the tendency toward light industries rather than heavy industries since their return on capital may be higher and distributions greater.

These problems were to be found mainly in the history of the early years following the introduction of the workers' management and profit sharing scheme. In spite of their existence there was a significant increase in the rate of economic growth achieved after applying the self-management and distribution system to the Yugoslav economy.

6.3.2 Achievements of the Scheme

Although the Yugoslav experiment faced some problems and drawbacks, nevertheless, the Yugoslav economy continued to grow especially through the mid 1950s by which time it had recovered from the shock of being severed from the Soviet bloc and establishing its new systems of workers' management and profit sharing (Blumberg, 1968). However, one might wonder about the connection between the improvement in the Yugoslav economy and the application of self-management. This may be indirect and so difficult to gauge that nobody has even tried. Nevertheless, it is obvious that the role of workers has been a very important and crucial one in achieving such improvements in productivity and major improvements in the modernisation of the capital structure of the country.

The ILO suggests that modernisation and mechanisation:

"... do not appear to have come up against any resistance from the collective or workers' management bodies. In fact, they seem to see their hearts on it as soon as enough money is available. This attitude seems mainly due to the fact that they (the workers) themselves control the volume of unemployment in their undertaking and that any initiative they display has an effect on their earnings (through profit sharing)" (ILO, 1962, p 74).

United Nations data indicate that the Yugoslav economy during the late 1950s captured the World's record for the greatest increase in per capita gross national product. According to the United Nations Economic Survey of Europe (1959) and their Economic Bulletin for national product, from the period 1951 to 1959 (part of which time the economy was performing poorly) it was three to four times more rapid than that of the Eastern European Communist countries (Blumberg, 1968). Also, the Yugoslavs themselves considered the

large increases in production after 1957 to be a result of the new profit sharing scheme and to its stimulating effect on all those associated with the running of Yugoslav undertakings (ILO, 1962).

In fact, one of the main reasons behind improvements in Yugoslavia's economy may be considered the industrialisation and transformation from an agricultural to an industrial society. In 1948 when the population reached 15,772,000 the rural population was 67.2 per cent by 1977 this percentage had dropped to 31.1 per cent even with an overall population increase to 21,767,000 (Federal Statistical Office, 1978). So, industry and industrialisation have been the central point of post-War development in Yugoslavia's economy. In 1947 the industrial output was only 18 per cent of the total output while agricultural output was 40 per cent (Yugoslav Embassy, 1979). In 1953 there was an increase in the industrial output which reached 33 per cent of the total, while there was a decrease in agricultural output to only 34 per cent of the total output (Wachtel, 1973). By 1965 more than 50 per cent of social product was from industry and only 18 per cent from agriculture. The index number of industrial production in 1977 in comparison with 1952 was 1023 (Statistical Pocket Book, SPB, 1978). As far as the volume concerned the industrial output volume in 1977 was 2.2 times greater than agricultural output, which was exactly the opposite of 1947 position (Yugoslav Embassy, 1979).

Productivity has also improved within the application of technological innovations and the introduction of self-management. From an index of 100 in 1952 and 92 in 1954 productivity had by 1957 reached 123 and by 1977 passed 301 (Blumberg, 1968; SPB, 1978;

Yugoslav Embassy, 1979). During the period 1947-1977 industrial output per worker rose three times reaching an average of 4.5 per cent a year (Yugoslav Embassy, 1979). The industrial workforce now represents 38 per cent of the total workforce (in 1977) from which women account for 37 per cent (SPB, 1978). The skills structure has also been improved. In 1975 in industry there were 50,000 university trained persons compared with 4,700 in 1953 (Yugoslav Embassy, 1979). Skilled workers and technical staff constituted 54 per cent of the total workforce in industry compared with 42 per cent in 1953 (Ibid).

The personal income of workers has increased especially since 1957 with the application of the distribution system in its new form (ILO, 1962). In 1957 personal income was 11.620 dinars, 12.270 in 1958, 13.800 in 1959, 17.356 in 1963 and had reached 253.462 dinars in 1976 (SPB, 1978). Going side by side with this increase in workers' personal income, there has been an increase in personal consumption as well. In 1962 personal consumption was 19,500,000 dinars, and had reached 394,039,000 in 1977, or in other words it multiplied twenty times during the last fifteen years (Ibid).

However, the evidence gathered from the empirical studies regarding the structure of influence within self-management enterprise; participation and involvement; feeling of ownership and identification with the organisation; and workers' acceptance of deferred gratification, shows that the existing scheme has partly achieved these ends.

Many studies focus upon the shift in formal control and its relation to the distribution of influence within Yugoslav organisations. It has been found that most of the members of self-management enterprise feel that influence is concentrated in top management. Top management,

staff and middle management are seen to have more influence than the unskilled workers (Rus, 1970). Nevertheless, other studies found that managers feel that they lack control; they attribute the Workers' Council with greater influence than do the workers themselves (Ibid).

Another study pointed out that employees' perceptions of their own influence varied between blue collar and white collar workers; 47 per cent of blue collar workers thought that the Council had the most influence in the self-management enterprise while only 27 per cent of white collar workers thought so (Wachtel, 1973). Zupanov and Tannenbaum's study of fifty six plants concluded that the perceived structure of influence varies among employees in organisations, and that the perceived structure of influence in the enterprise corresponds exactly to the social stratification in that enterprise. Managerial personnel are considered to have the most influence, followed by various types of white collar workers, with blue collar workers having the least influence over decisions made in the enterprise (Zupanov and Tannenbaum, 1968).

With regard to Council members and their influence in the Council itself, a study by Rus, Kavcic and Tannenbaum (1971) provides more evidence that management was controlling the situation. Furthermore, Kolaja's study found that even the accepted proposals were most likely to have originated with management personnel (reported by Wachtel). Rus concludes that top management and staff have power without responsibility and the Workers' Council has responsibility without power; that there is still substantial inequality in perceived influence and that workers are adjusting their aspirations to correspond with this fact (Rus, 1970). Other studies concurred with this and suggested that formal constitutional forms of participativeness does not bring about

the desired effects of direct participation or influence throughout the organisation (Tannenbaum et al, 1974).

Concerning the participation aspect, Obradovic and others carried out a study to find out whether there is a difference in attitudes between members of Councils and non-members with regards to participation and its effects on worker satisfaction (Obradovic et al, 1974). They found that psychological (perceived) participation by the members of the Council was greater than that of non-members, but the difference was quite small. Also, there was a correlation between psychological participation and satisfaction, but with a small significant difference between members and non-members of the Council. Furthermore, they found that membership of the Council had an effect on the general work satisfaction but differences between members and non-members were also quite small (Ibid).

Arzensek's study concluded that there was a greater desire for employees to have more participation, but this desire was limited to what might be called personnel decisions only (as reported by Rus, 1970). In other words, those who desired to participate were concerned mainly with decisions which could affect them directly eg their professional status; the distribution of company's income; social status within organisation (Rus, 1970). Some factors might combine together to affect workers' desire for participation - as can be gathered from the available studies. First, workers have discovered that many decisions are technical or do not affect them personally (as reported by Rus, 1970). Second, there is a feeling among the majority of the workers that their self-management bodies are not consulted as is supposed to be the case. They believe (especially those with high education) that the most important criterion for election to those bodies is political

influence (Kavcic et al, 1971). Third, there is the feeling among most of the workers that management was controlling everything and that the Workers' Council itself has little influence and has lost its function as a representative of workers' interest (Rus, 1970). Fourth, inability of the majority of the workers to understand management's reports (Doder, 1979). Lastly, perhaps the reason for workers' lack of involvement is that the system was imposed from above and not from workers themselves (Ibid).

"Our problem is that self-management has been imposed from above - we are trying to go to the floor level and explain to the workers what their rights are, but that will take time" (as quoted by Doder, 1979, p 106).

About the workers' desire to join the Workers' Council, a study by the Institute of Social Science in Belgrade was conducted (Miester, 1965; Blumberg, 1968). According to this study, 36 per cent of employees were unwilling to participate while 54 per cent were willing to do so. Those who were interested gave two main reasons; 78 per cent social altruistic reasons; 22 per cent sought their own personal advancement. Those who were not interested gave reasons such as 27 per cent thought themselves too old or young, 36 per cent had no experience, 21 per cent were too busy and 17 per cent had no desire to worry about other people's problems, or considered it a waste of time. Yet the majority believed that the Council had improved the workers' position and believed that the behaviour of their representatives had not changed as a result of their election (Tannenbaum et al, 1974).

With regard to the Yugoslav workers' acceptance of deferred gratification and their identification and feeling of ownership, the evidence gathered from the previous studies shows that the participative schemes have partly achieved this objective. As far as deferred

gratification is concerned, it has been found that the Yugoslav workers were not different from their counterparts in capitalist countries. Workers wanted immediate distribution, and were least likely to want to postpone gratification or to reinvest. However, employees' attitudes varied according to their social position in the organisational hierarchy and the desire for immediate distribution was clear at the lowest level of occupational groups (Kavcic et al, 1971). With reference to employees' identification and feeling of ownership, it has been noticed that employees' responses differed according to level of skill, but at the higher levels identification was high (Wachtel, 1973).

Also, it has been found that self-management enterprises which have been studied do differ from one to another in participativeness; level of control; motivation and identification of its members (Kavcic et al, 1971). Furthermore, it has been found that although Council members were more highly involved and motivated in their work than non-members, there were no differences between the two groups concerning their identification with their enterprise and their attitudes towards their work situation (Ibid).

Recently a comparative study of five nations (including Yugoslavia) has been conducted by Tannenbaum and others. This study demonstrates that across all countries the employees at upper levels, compared to those below, are predictably more satisfied with their jobs and their salaries and have a more favourable attitude to their companies. But the study points out a widespread desire for more equality and participativeness. The level of education is found to be the main reasons for the conflict which occurs between the ideals of self-management and the realities of industrial life. Education is considered to be one of the factors that help in reducing the feeling of alienation in the

socialist system as in the capitalist (Tannenbaum et al, 1974).

Conclusion

Even in a benevolent political environment and when combined with a system of self-management, or worker control over the assets, profit sharing does not seem to bring about a complete identity of interests between different levels of the workplace hierarchy in Yugoslavia. A number of reasons have been advanced to explain the continued dichotomy of feeling and identity that exists in the Yugoslav system:

i) The influx of semi literate workers from the agrarian sector of the economy has made the task of educating manual operatives into an understanding of the institutional mechanisms of profit sharing more difficult than it might have been with an urbanised workforce.

ii) On the other hand it might be said that this task might have been made simpler for a largely peasant labour force had they not been treated like wage labour in almost every respect. The basic wage criterion applied by the International Congress on Cooperation in 1889 and maintained by Western governments as a measure of the freedom of workers to opt out of schemes of remuneration based on profit sharing, has been effectively retained in the Yugoslav case. It is therefore possible for the Yugoslav worker to regard his guaranteed minimum wage plus his normal level of earnings as the basis for a cash nexus in his relationships with the firm. While the make-up of the wage and its theoretical justification may be known to Party administrators and theoreticians such as Vanek to the average worker its source may not appear so different nor the function it plays in determining his life chances or life style.

iii) Similarly the hierarchy that exists in Western capitalism is repeated in the formal structure of Yugoslav administrations - with the addendum of the Works Council as the source of strategic decision

making. Much has been made of the rise of the "new managerial class" as it is described by Djilas (1976) and of the effective control that managers hold in respect to the day-to-day operation of the enterprise in studies by Yugoslav behavioural scientists using the measures designed by Tannenbaum and others at Ann Arbor, Michigan. This may in part be due to the widespread adoption of the principles of Scientific Management in the design of Yugoslav enterprises. The need for rapid industrialisation was seen to demand the adoption of managerial systems of a conventional American/Russian form, that is, rigidly technicist in orientation. For the same reason the most modern technology has been widely adopted by enterprises often with disastrous results for employment in local communities. Against this it may be argued that the choice of self-management as a strategy for rapid industrialisation was a particularly fortuitous one. It harnessed the ethnically various values of the Yugoslav peoples and differing and often conflicting political purposes of its different occupational strata in pursuit of local goals and purposes rather than some higher and barely understood ideological platform of social reform. Many of these conflicts are worked out in the framework of the enterprise and the commune without disturbing the overall regime of the League of Communists. At the same time the statutes passed by the Central Government reflect an awareness of the needs of industry to an extent that it is perhaps not true in Western parliamentary forums.

Thus profit sharing in this context may be seen as one aspect of a complex system of social control in which the role of self-management has also to be linked with that of the political process within the League of Communists. It has also to be seen in terms of its overall purpose of achieving industrialisation without the fundamental crises that have beset most other industrialising countries. In the latter respect it has been

particularly successful.

The following section will summarise the main differences between voluntary and compulsory profit sharing scheme previously discussed in Chapter Three and Four of this study. This will be followed by case study of the Egyptian profit sharing scheme as a further model of a compulsory scheme to test the hypotheses developed in the following section.

6.4 The Main Differences between Voluntary and Compulsory Profit Sharing Schemes

From the previous discussion of profit sharing schemes in two capitalist countries and a socialist country, or in other words between voluntary (plant-initiated schemes) and compulsory (government initiated-schemes) profit sharing schemes, one will be able to summarise the main differences as follows:

1. **Origins:** The first noticeable difference is that voluntary profit sharing schemes were in effect long before compulsory profit sharing schemes. They developed fairly late in the process of industrialisation in capitalist countries but are generally introduced at national level as a means of industrialisation in developing countries.
2. **Objectives:** With regard to voluntary schemes in capitalist countries, the objectives differ from one enterprise to another due to the fact that it serves the individual entrepreneur's aims and objectives. In the majority of cases the initiative is taken by the owner, despite the involvement or consultation of workforce or trade unions. In some countries such as France the objectives tend to be that of emancipating

workers during periods of political and economic crisis. The objective behind applying such schemes in developing countries is a general social one, serving a political and ideological purpose. There is evidence that suggests that profit sharing enjoys temporary popularity during times of economic crisis in capitalist countries. Thus in both types of system profit sharing has tended to be used as a device for coopting workers to prevailing systems of control.

3. Method of presentation: In capitalist countries, the owner himself presents the idea at his convenience or after consultation and agreement with workers' representatives. So the scheme is not enforced from the outside. On the other hand, in socialist countries the scheme is enforced since it serves the political and ideological system; it does not consider local differences in opinions or desires of workers or unions except insofar as these are expressed through the machinery of the dominant political party or elite.
4. Motives: This has varied from time to time in the scheme's historical evolution in capitalist countries, but nowadays the motive in applying such a scheme is to reduce worker-management conflict and to guarantee their cooperation in achieving the corporation's aims. As such, it may often be seen as a better alternative to workers' participation in management. This contrasts with systems in socialist countries where workers are, formally at any rate, in possession of many of the rights of ownership and control of the plant. Profit sharing may be seen a corollary of this formal situation but in effect it may serve as a more

effective source of commitment to the system than the normative one claimed by nationalistic or revolutionary leaders.

5. **Stability:** In capitalist countries, the management still has the right to terminate or modify the scheme if it no longer serves its ends. Hence the workers' confidence in it is limited. On the other hand, in socialist or command economies the management does not have such authority and the scheme cannot be affected in any way by the management. Consequently, the workers have extra confidence in the scheme. Perhaps more fundamental are the constraints upon enterprise in relation to the closing down of its operation and for the termination or disruption of the careers of its members are generally more protected in socialist economies.

6. **Connection between profit sharing scheme and worker participation:** In capitalist countries, there are two ways by which management seeks to increase employee cooperation in achieving its objectives, and they are often seen as alternatives to each other. These are representative systems of worker management and profit sharing. However, the socialist trend in France for example has led the management to introduce the profit sharing scheme together with worker participation in management. Profit sharing is often introduced simultaneously with worker participation in socialist economies on the grounds that profit sharing ensures that worker participation is effective and earnest. Scanlon, Rucher and Bentley Plans which have a growing popularity in USA and the UK also combined limited rights of control with those of profit sharing.

7. Trade Unions: The role of trade unions in both types of schemes is different. Firstly, in countries in which profit sharing schemes are applied voluntarily the trade unions often try to get a footing in the regulation of the organisation, whereas in command economies, trade unions do not usually try to interfere in the management of organisation: usually their role is limited to the level of industry and regions only (Poland being a recent obvious exception). Secondly, trade unions in capitalist countries are permitted to have objectives which might be in opposition to those of the management whereas in countries enforcing profit sharing schemes, there is - generally - no overt conflict between the trade unions and the management, both of them working together to achieve the same objectives. Thirdly, trade unions in capitalist countries are older, generally more formally democratic and have more freedom of action than in countries with government initiated schemes. Furthermore, managers in capitalist countries often have to deal with several trade unions unlike managers in command economies who in some cases may deal with only one trade union (usually an industrial union).
8. Profit determination: The method of accounting and determining the profit to be distributed is not constant in many voluntary or capitalist schemes. The actual profit may not be disclosed and an illusory profit less than the actual one, be announced. In compulsory schemes, however, there is a pre-determined method of accounting the profits which is followed by all organisations. Consequently, employees of the latter schemes can have more confidence in them than have employees of the former.

9. Methods of distribution: With voluntary schemes (plant-initiated schemes), profits can be distributed in the form of immediate cash distribution, or deferred distribution or a combination of both. In compulsory schemes (government-initiated schemes) profit is most commonly distributed in the dual form of a current or deferred cash distribution together with cash spent on social services (eg housing). In the countries applying voluntary schemes the emphasis of governments has been upon retaining labour mobility. Responsibility for social services are considered the responsibility of the state or of nationally controlled schemes of insurance unlike countries enforcing profit sharing schemes where the employing organisations are sometimes made responsible for the provision of these services. The reasons for this difference is to be found in the limited resources available to new regimes in developing countries and the lack of any well established bureaucratic network along which to develop nationally controlled systems.
10. Profit sharing schemes in capitalist countries are often related to the contingencies facing the industry or organisation. There may, for example, be difficulty in carrying on the application of individual incentive schemes in some circumstances. Other difficulties arise from the size of the organisation, or the nature of production systems, or from the degree of mechanisation. Compulsory schemes are applied across all organisations and all industries whether or not they are desired by all. Their workings may however reflect the same effects of the contingencies facing the operation of the scheme in the way that such factors

shape the structure of capitalist systems.

The Egyptian case will now be examined against the background of these differences with a view to determining how far it follows the characteristics of one or other system.

PART THREE

THE EGYPTIAN PROFIT SHARING SCHEME
AND INDUSTRIALISATION PROCESSES

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CHAPTER SEVEN

Industrialisation and Economic Development in Egypt

Introduction

This Chapter is devoted to giving a brief description of the economic growth and industrialisation in Egypt - the chosen country for study. Five main stages have been analysed and studied, and each of them has had a significant effect on industrialisation and the shape of the labour force as well as the ideologies which dealt with and governed the relations between government, management and labour throughout its history.

The study will highlight the state of the economy in general; the problems confronting the development and industrialisation; and the state of the work-force in each of these stages. It is an attempt to trace industrialisation history and its development as well as its effects on the labour and the surrounding environment; and the ideologies which govern the industrial relations throughout its history. This will help in demonstrating the main reasons behind the application of participative schemes and industrial democracy in Egypt as an example of command economies.

7.1 The Ancient Period of Egyptian History before Mohamed Ali

Egypt has civilisation extended over seven millennia (Mosharrafa, 1947; Issawi, 1963). The achievement of Pharonic Egypt needs no emphasis and during Ptolemaic reign Alexandria was the leading centre of science and scholarship (Ibid). During the Christian era

Egypt played an important part in the elaboration dogma and the evaluation of ecclesiastical institutions (Issawi, 1963). Later, the Fatimid period marks one of the peaks of Islamic civilisation. Science and arts flourished greatly and industry reached a high level. Issawi has noted that:

"Windmills were introduced - new industries were established such as paper-making, porcelain, sugar refining, and the distillation of gasoline; and old ones like linen and woollen textiles, leatherwork, and metal-work were perfected ... Many of the processes worked out by the Arabs were transmitted to Europe, but as the thirteenth century the Arabs were still sufficiently creative to learn as well as to teach" (Ibid, pp 12-13).

Yet historically, several factors emerged and contributed to deprive Egypt of the fruits of this greatest past and prevented continuing development of the economy (Lahitah, 1944; Mosharrafa, 1947; Issawi, 1963).

(A) Indo-Mediterranean Trade

From early times Egypt has had political importance to the world because of its location as a linkage between the East and West. This importance may explain the reasons behind the long period of foreign domination as well as the desire for all domestic rulers to secure control over all the principle Indo-Mediterranean trade routes (Issawi, 1963). These trade routes have been of considerable importance to Egypt. In spite of the fact that the prosperity of the country was always to depend on agriculture, the trading profits from these routes formed an important source of revenue. Historically in the eleventh century Egypt's importance increased particularly when the growing prosperity of Europe revived the demand for raw materials. Then, came the rounding of the "Cape of Good Hope" which was a deadly

blow to Egyptian trade and it was not until 1869, with the opening of the Suez Canal, that Egypt began to regain its former importance (Lahitah, 1944; Issawi, 1963).

(B) Foreign Domination

Egypt has suffered from a long period of foreign domination, stretching unbroken from the Persian conquest in 525 BC to the nineteenth century (Issawi, 1963). During this period Egypt was never ruled by Egyptians and its rulers; military leaders as well as the higher ranks of the government and civil servants were foreigners (Badran, 1974). Naturally, the aims of these foreigners were not identical with the country's desire or even sometimes was against its prospect (Mosharrafa, 1947; Issawi, 1963). It was not until 1952 when the revolutionary junta took over that for the first time in 25 centuries Egypt was ruled by an Egyptian (Dekmejian, 1972).

(C) Autocracy and Centralisation

From antiquity, Egypt had a deeply entrenched tradition of centralised state control over the main sectors of the economy (Dekmejian, 1972). This can be noticed from the time of the Pharaohs through the reigns of the Ptolemies, the Romans, Arab governors and Turkish kings and "pashas" (Issawi, 1963). This might have resulted from the fact that irrigation has to be planned and executed in terms of the country as a whole and cannot be safely left to independent authorities.

"The fact the government controls the Nile and manages the irrigation system makes its intervention and participation in both the daily routine and the long term development of agriculture almost a necessity" (Hansen and Marzouk, 1965, p 82).

Consequently, right through the history, all the administration was concentrated in the hands of the ruler and leading elite and no initiative whatsoever was left to the provinces. Egypt, unlike most countries, has had, during the last two millennia, a hereditary landed aristocracy with traditions of local autonomy (Issawi, 1963). The central government never broke down as completely as it did in Europe during early Middle Ages. Also, the upper classes were interested always either in trade or war and never in agriculture, and dwelt exclusively in the main cities (Ibid). All this has accustomed Egyptians to look to the government to initiate any business whatsoever (Ibid).

(D) Exploitation

Egypt has always suffered from intensive economic exploitation, in addition to political oppression. The extent of this exploitation started under the Pharaohs. Despite the fact that building up the Pyramids of Giza required very advanced techniques in construction industry it remains, however, a monstrous sacrifice of the nation to its Pharaohs (Issawi, 1963). Under the Romans, the country was exploited more systematically. Under Turkish rule the Egyptian was sacrificed again to build with his own bare hands the Suez Canal. Years later, the British occupation of Egypt was integrated as an agricultural colonial unit in the international politic-economic system (Badran, 1974).

All the mentioned factors resulted in the economic and cultural stagnation in which Egypt subsisted between the fourteenth and nineteenth centuries (Issawi, 1963). It also reflected an

unbroken record of misery which perhaps explains the Egyptian peasant's acceptance of the very hard conditions in which he lives.

The Patriarch Dionysius wrote in AD 815 when he passed through the textile centre of Tinnis:

"I have never seen a people so poor. On asking them they said ... 'our wives spin the flax and we weave it all day long ... the government buyers and the merchants give us half a derhem a day for wages ... this is not enough to feed our dogs ... we pay a tax of five dinars (100 dirhems) a year each ... if we can't pay it, we are put in prison and our wives and children are held as hostages ... For every dinar we cannot pay, we are made slaves for two years'" (as quoted by Issawi, 1963, p 8).

In the eighteenth century under the Mameluke reign Egypt became a poor, isolated and self-contained country and industry had greatly declined from the high level reached under the Fatimids and was very rudimentary, meeting only the simplest wants of the population (Girgis, 1958). Nile boats and camels provided the chief means of transport, there being no wheeled traffic. Both road and river were highly insecure and convoys were generally formed for protection. Imports consisted mainly of European clothes, metal goods and glassware, while exports being mainly wheat, rice and onion (Issawi, 1963).

The above brief description of the Egyptian economy gives a clear picture of a state of stagnation and subsistence for most of the population and in particular the work-force until the reign of Mohamed Ali. Indeed, centuries of unscrupulous foreign regimes left the Egyptian population unskilled and ignorant, illiterate, apathetic and often in bad health. They were trained

in primitive methods of agricultural production only and kept down by a corrupt feudal government system (Hansen and Marzouk, 1965).

7.2 The State Monopoly under the Mohamed Ali Regime (1805-1844)

Although the origin of most manufacturing carried on in Egypt can be traced back to antiquity, the establishment of an industrial sector can be attributed in one way or other to Mohamed Ali who is considered to be the founder of Modern Egypt (O'Brien, 1966). Under the Mohamed Ali dynasty an attempt was made to create an industrialised, closed economy, and to absorb part of the Ottoman domination. Mohamed Ali tried to carry out a programme of forced industrialisation and henceforth the historic trend toward large state control accelerated. This policy in practice represented the foundation of first state monopoly based on state ownership and management of all means of production as well as most trade (Badran, 1974).

Mohamed Ali was trying to lay the foundation for a balanced, diversified economy that in time would have greatly raised the standard of living. He succeeded in giving administrative protection to infant industries. Also, he used the state monopoly policy to lay the foundations for modern complex industry (Fahmy, 1945; Issawi, 1961). The investment capital required was obtained from the profits of his monopoly of internal and external export trade, from taxation and from forced loans. Investment in industry up to 1838 amounted to about £12 million (Hita, 1957). Machinery was imported from Europe together with technicians, and by 1830 factories were turning out cotton, woollen, silk and linen

textiles, sugar, paper, glass, leather, ships, oil, flour, rice milling as well as sulphuric acid and other chemicals (El Kamash, 1968). The state was also monopolising the provision of raw materials and assuming sole responsibility for providing the workmen, and for collecting and selling their finished products (Fahmy, 1945). The market for the industrial output was provided by the army, by import substitution and by displacing some handicrafts. The government also forbade any industrial production outside the public sector (O'Brien, 1966). However, despite these efforts Egypt remained an agrarian economy and the industrial sectors contributed very little to the national product.

Yet in the agricultural sector, M Ali's policy met with more success. He desired the agricultural sector to provide the revenue required to pay for the bureaucratic administrative structure and the rising volume of military expenditure. M Ali's achievement may be represented as follows (Fahmy, 1945; Shokri, 1949; Issawi, 1963):

1. He led a revolution in the system of land tenure. The prevailing method of communal ownership was replaced and the peasants enjoyed more rights.
2. The irrigation system was improved by replacing the periodic floods in the Nile basin by perennial irrigation. This helped to increase the land under cultivation from 3 million feddan to approximately 4 million.
3. He started to plant long staple cotton on a commercial scale in 1821. By 1824 over 200,000 centres of cotton

were being exported and by 1845 exports reached approximately 345,000 centres.

As far as the Egyptian trade at that time is concerned, at least the Egyptian cotton found a ready market in Europe. By 1945 export revenue from cotton reached £E2 million per annum compared with one tenth of that in 1824 (Bullard, 1958). This represented a slow, successful reduction in Egypt's isolation from the world economic system.

The state monopoly over trade was very great. For example the "fallahin" had to sell their crops at a low fixed price to the government which resold them to foreign exporters at great profits (Dodwell, 1931). In addition two fifths of the imported goods were under Mohamed Ali's control. In order to facilitate foreign trade, communications were developed, in particular the improvement of the port of Alexandria and its linking by canal to the Nile.

Despite Mohamed Ali's attempts to lay the foundation for a balanced, diversified economy, several factors contributed to accelerate the collapse of his attempt to industrialise Egypt. These factors may be presented as follows:

1. The principal aim of Mohamed Ali was to build up a modern army to secure his position and extend his influence. Accordingly, his prime interest in establishing the state monopoly of industry was to reduce his dependence on foreign industry in obtaining the manufactured product necessary for the army (Girgis, 1958). Therefore, in 1841 his defeat

by a Great Power, France, resulted in the compulsory reduction of his armed force and removed most of his incentive for industrialisation.

2. The lack of Egypt's political autonomy represented one of the main obstacles to economic development subjecting her to great international economic and financial pressures (Lander, 1958). The tariff was fixed by conventions concluded between the Ottoman government and the Great Powers, and no direct taxes could be imposed on foreigners without the consent of the governments (Mansfield, 1971). This weakened the economic development which required substantial aids in the form of "tariff protection, tax exemptions, rebates on transport rates, cheap power, special credit facilities to certain sectors, educational policies, ... which only a government enjoying a large measure of political and fiscal independence can provide" (Issawi, 1963, p 24).
3. Mohamed Ali's limited success was chiefly due to the administrative protection he gave to his infant industry. Its ultimate failure was due to the excessive bureaucracy, centralisation and red tape connected with the concentration of authority in his hands (Barakat, 1965).
4. As a result of Mohamed Ali's defeat followed by the reduction of his army, the fostering of the manufacturing structure was not needed in the domestic market and Egyptian industry could not compete in the international market (O'Brien, 1966). This situation led to the development of an export oriented

economy in agricultural goods. Industrialisation remained static or even declined as a result of this intensive mismanagement. The consequent inflation added to the hardship entailed by the enforced militarisation which caused thousands to flee the country over this period of transition (Issawi, 1963).

All these factors contributed in ending the first phase of Egypt's modern economic history.

With regard to the state of the labour-force, in spite of Mohamed Ali's various attempts* to create a disciplined work-force by forced programmes, it remained less amenable to industrial discipline (El Din, 1965). Most of the labourers were illiterate, inexperienced and ignorant. This affected the communication of instructions relating to their work and prevented training policies from being carried out. This may be explained by the fact that the majority of the labour force were migrants from rural areas, with low aspirations and who maintained strong links with their families and villages (Issawi, 1963). Consequently, this reflected in a high rate of absenteeism, and a high labour turnover with frequent resignations from workers returning to their villages and farms.

Mohamed Ali's policy of forced labour recruitment implied, as O'Brien described it:

*During M Ali's reign over 300 students were sent to Europe for training, and new high schools were opened for medicine, engineering, chemistry, accountancy, language and the military colleges.

"... all labour was liable to state direction: it was either conscripted for the army, organized into corvées for work on the irrigation system, or made to work in the government's new factories" (O'Brien, 1966, p 41).

In addition to the forced labour recruitment, the working conditions were hazardous (O'Brien, 1966). Moreover, wages were very low and even the payment was delayed, all of which did not motivate the majority of the peasants to leave work in their farms and join the new factories (Bassiouni, 1979). Further, low wage levels attracted only a poor quality of labour both in general level of health and education and in their amenability to the demands of industrial discipline. This disparity produced quite wide disparities in efficiency (O'Brien, 1966).

Despite the fact that Mohamed Ali's attempted programme of industrialisation, he lacked even the minimal provision for education and health required to industrialise Britain. Nor did working conditions improve in the manner that they did in contemporary Britain so that Egypt failed to meet even the minimal conditions conducive to economic growth achieved in the latter country. Instead, working conditions were maintained at subsistence level and a broad based consumer based economy was never feasible at that time.

7.3 Development of Free Market Economy (1844-1920)

The close of the nineteenth and early twentieth centuries saw the beginnings of a new trend towards a free market economy. The state abdicated the commanding position it held over the economy, except for direct responsibility for the irrigation and

drainage system (Ibid).

Historically, the agricultural development of Egypt started during Mohamed Ali's reign and was accelerated under his successor (Dodwell, 1931). The agricultural development through this and later periods, the Khedives and the British rule, consisted essentially of the better regulation of water supplies. Over the nineteenth century the basin system was gradually replaced by perennial irrigation and the land was cropped more than once a year. Investment by the state in canals, drains, dams and barrages continued over the period. According to available statistics, between 1820 and 1914 cultivated area was increased by more than 75 per cent (Issawi, 1963). Moreover, the expansion of world demand for cash and food crops had provided the opportunities to grow surpluses and had transformed a traditional subsistence sector into a highly commercialised and responsive sector (Issawi, 1963; Mead, 1967).

Yet, the integration of Egypt into the international market necessitated some structural changes in the Egyptian economy:

First: The gradual removal of restrictions on private ownership, and by 1858 collective responsibility for land had been abolished (Issawi, 1963). Later in 1890 full rights of private ownership were confirmed and finally foreigners were authorised to acquire any kind of land (Baer, 1962).

Second: State control over communication and transportation (Dekmejian, 1972). This intervention may be explained

by the government's desire to control the above sector in order to guarantee the success of export policies. The kind of investment usually needed in this sector is large and was thought to be unattractive for the private investor. Under the control of the state the first railway was opened (1853). Cairo was connected by Alexandria and Suez; 13,500 kilometres of canals were dug (under Khedive Ismail reign); and the Aswan Dam was built (Mabro, 1974).

Third: The financial links developed in this period bound Egypt with the international community (Issawi, 1963). The growth of foreign banking which started in 1850 was structured by the agricultural surplus particularly that in cotton. These banks gradually controlled the cotton trade. By 1877 eight banks were provided with telegraph link exchanges in Paris and London.

With regard to the industrial sector after Mohamed Ali, the Egyptian rulers who followed him (Khedives Abbas and Said) displayed little desire to emulate the totalitarian policies of their predecessor. As the system established by Mohamed Ali gave way to a decentralised private enterprise economy, the economic functions of state were gradually abolished except for its responsibility for the irrigation system. Therefore, the state left entrepreneurs to develop manufacturing and to utilise methods of production and raw materials in whatever direction they found profitable (Lihitah, 1944). Following this laissez-faire regime Ismail's reign was marked by a more active participation by the state in economic affairs with a programme of large-scale

public investment designed to modernise communication and to extend the cultivated areas (Gritley, 1947). The pattern of investment remained geared to the contemporary needs of the export economy (O'Brien, 1966). Investment in industry was limited to activities enjoying protection of transport costs, ie sugar, beer, and building materials. Apart from some cotton-ginning factories which were established by foreigners, the rulers made no attempt to establish diversified productive structures through industrial development (Baer, 1968).

Yet the ambitious attempt of Ismail to expand the power of the state was a failure as a result of the ill-conceived nature of his projects and the massive dependence on foreign loans, and the personal extravagance and corruption of Egypt's rulers put Egypt in debt to the extent of £E98,377,000 by 1880, which was reinforced by the political decision of the British to keep Egypt as a vast cotton plantation for the factories of Lancashire (Mansfield, 1971). This coupled with the importance of the Suez Canal opened in 1869 led to British occupation of Egypt in 1882 (O'Brien, 1966).

Under the British administration, no efforts were made to foster or even to encourage industry. The British administrators believed in free trade and not in fostering the infant industries of a potential competition in Egypt. So that the domestic industries had no tarriff protection to encourage them (Mabro, 1974). Foreign capital was the main source of investment in both industry and public utilities. This trend resulted from the hostile attitude of the government to industrialisation by Egyptian entrepreneurs and

left the industrial sector to foreign investors or minority groups (Issawi, 1963). This could be expected under the capitulation, where foreigners enjoyed a fiscal and judicial immunity that gave them a great advantage over Egyptian competitors.

There were difficulties in attracting long term capital or private investment of any kind. A tendency to short term investment therefore resulted since the government left industrial development to private enterprise with no supports. The absence of protection against foreign competition and the imposition of an excise duty of 8 per cent on local products all discouraged the domestic industries to contribute to national income as they might have (Mansfield, 1971).

Moreover, the overall rate of saving to national income was low, and the preferences of the investing class displayed no tendency to favour industry compared with more traditional outlets for savings such as land or real estate (El-Qunni, 1944; Anis, 1950). The free trade with absence of restrictions on capital movement across its frontiers, and without control on the money supply, placed the economy on a path which it could not easily abandon because capital costs depended upon the supply of investible funds to industry and the latter were expensive and difficult to find.

The absence of the Egyptian's interest in industry, trade, or finance, left business entirely to foreigners who controlled finance, large scale commerce and even dominated petty trade (Issawi, 1963). Wealthy Egyptians always bought land, those with technical skills were attracted by ready employment in the irrigation works

and the railway services. The educated Egyptians directed their attention towards the civil service. The number of civil servants increased between 1882-1907 by 84 per cent against a population growth of only 66 per cent but Egyptians did not hold many of the highest official posts (Baer, 1968). By 1903 Egyptians occupied only 33 per cent of the senior civil service. This affected the foundation and development of administrative or management skills and experience (Rachid, 1970).

Neither the structure of industry nor the attitudes of its controllers were conducive to the creation of a managerial elite. The shortage of personnel officers, accountants, and sales managers meant that managers were less specialised than considerations of efficiency demanded (Lahitah, 1944; Badran, 1974). In the long term, the process of industrial growth generated the skilled personnel, but in the short run the educational and social system failed to face this shortage. As a result several firms were dominated by the "tycoon" type of director, compelled to engage in a variety of tasks properly delegated to subordinates. The centralisation of authority and the failure to delegate further inhibited the growth of a managerial elite (O'Brien, 1966; Badran, 1974).

At this period the Egyptian work-force was less effective as producers than their counterparts in developed countries as a result of poor health, low wages and salaries, and lack of training (El-Din, 1965). Not much training could be expected from thousands of small family firms. The state largely neglected education and the high level of illiteracy resulted in shortages of technicians and supervisors at all levels of the productive process (Mabro, 1974). Little effort was made to provide industry with the skilled

labour required (Badran, 1974).

With regard to the agricultural labour force, it was not free to choose its occupation or place of work because the maintenance and regulation of the irrigation systems kept it under the directives of control authority (El Din, 1965). For most of the nineteenth century they were not only conscripted for excavating canals, to strengthen dikes or to erect barrages along the Nile but they were also compelled by the government to work on public projects (railways, and the Suez Canal). The village population who inhabited the Nile Valley was crippled by disease, sickness, low economic status and illiteracy. The rate of industrial and agricultural growth was not rapid enough to sustain the community life of the growing population and to raise real per capita income (Hamed, 1968).

7.4 Slow Retreat from Free Market and the Need for State Intervention (1920-1952)

Before the First World War, the circumstances that favoured the export economy began to change. The lack of diversified productive structures and the low level of investment in human resources hindered the country's attempt to develop new resources and to generate the minimal rate of growth necessary to maintain per capita income even at a constant level (Mabro, 1974). Because of the deleterious consequences of uncontrolled competition and the underlying weaknesses of the Egyptian economy there emerged a desire among Egyptian leaders for more state intervention and for a more centrally-directed system. State involvement was limited until 1930 when the government secured its fiscal autonomy from Britain

and became more active in the economic sector.

Many factors contributed to this new trend, which can be summarised as follows: the destructive effects of the free market policy; the two World Wars and their effects; cyclical depression; and public opinion and people's aspirations; all put more pressure on the state and political elite to try a new policy in maintaining social order (El-Quinni, 1944; O'Brien, 1966). In several important aspects the State started to play a positive role in the economy.

With regard to the agricultural sector, it remained at the mid-century the dominant sector of the economy. A third of the national product was provided by farming which employed 70 per cent of the labour force (Baer, 1962). It represented a major area of public involvement as the government attempted to increase production and to diversify crops.

Before the First World War agricultural products in general and cotton in particular had begun to decline (O'Brien, 1966). This led the government to pay more attention to completing irrigation projects, expanding the cultivated area and fertilising land on a large scale. As a result, the total crop area had been increased from 7.7 (1912) to 9.3 million feddan (1952) and had raised the surplus food available for domestic use (Ibid). Cotton still occupied one fifth of the total area and continued to be considered the first and main export (88 per cent of total exports) (Issawi, 1963). As such Egypt was a typical example of one crop-export economy.

Despite an increase in total output the growth of population combined with the shortage of land continued to depress per capita output. This was exacerbated by the unequal distribution of

agricultural income between landlord, tenants, and wage-labour. Thus the benefits of increased agricultural production were gained by the landlords. This situation resulted in short insecure leases which discouraged tenant farmers in allocating their land to longer gestating investments in animals, and they lacked interest in the fecundity of their soil or in improvement to their farms (Gritley, 1947; Issawi, 1963).

As a result of the failure of the agricultural sector to provide a solution to the problem posed by over population and land scarcity, the country's policy turned towards industrialisation which seemed to offer a solution for all existing problems. Even more, the need for industrialisation began to be realised as a means of increasing the country's independence. However, it did not proceed stage by stage say from handicraft to small factories and then on to large scale ones. This staged progression might have provided the development of skilled labour, expertise management and all other aids to an advanced industrial economy. Instead, industrialisation received a massive impetus through the shortage of imported manufactured goods when Egypt was cut off from her suppliers of manufactured import during the war (Issawi, 1963).

This wartime development created a protected market for domestically produced goods and local entrepreneurs set about meeting the demand created by the presence of foreign troops. The war also gave a boost to small scale industries and to small workshops where experience was gained and skills formed (Mabro, 1974).

Yet, at that period the state involvement in the industrialisation processes remained limited to encouraging the development of private

enterprise. The scale of industrial investment was not considerable but its structure began to change. After the First World War a number of different manufacturing enterprises began to operate (eg food processing, textiles, building industries). Large companies numbered around 15 and employment between 3,000-35,000 (Issawi, 1963). Moreover, a group of Egyptian capitalists founded the Misr Bank (O'Brien, 1966). One of its main objectives was to foster the Egyptian national industry. In addition the group provided working capital, and managerial and technical advice in order to promote local industrial and commercial enterprises.*

By 1930, tariff protection became the major tool for government aid to industry. Moreover, the government revoked the free trade policy and imposed duties on a wide range of consumer goods. The tariff reform of 1930 opened the road to greater economic role for the state in sponsoring the reorganisation of certain enterprises and the formation of some cartels; still without interfering with internal production policies (Mabro, 1974). The state was also involved in a limited way in other fields such as research prospecting and the extension of subsidised loans and credits to various firms through the Misr Bank (Dekmejian, 1972).

In 1939 exchange controls were imposed on foreign transactions and imports were subjected to licensing. The government resorted to a variety of deflationary devices including floatation of loans, budget surplus, increased tax rates, sale of gold, and price control due to government shortages and inflationary pressures.

* In 1923 the government deposited funds with Misr Bank for short loans to small farmers and co-operatives and by 1930 a modern textile industry was established by the Misr Bank group.

The Second World War greatly stimulated Egyptian industry and the demand for Egyptian products increased. O'Brien pointed out the factors behind this new impetus, which were: the reduction of imports; the expenditure of Allied troops stationed in Egypt which presented some 25 per cent of the Egyptian income; the British military encouraged and assisted Egyptian entrepreneurs in meeting wartime demand; the Middle East Supply Centre helped the firms with technical and managerial advice to overcome problems associated with production; and exporting some Egyptian products to other countries in the Middle East, where manufactured goods were even more scarce (O'Brien, 1966).

So, historically agriculture has retained a primary role in the Egyptian economy, but since the 1930s industrialisation has grown rapidly. According to available data, output showed a rise of 138 per cent between 1938 and 1951 and another rise of 50 per cent between 1945 and 1952. The capital of industrial joint stock companies rose from £E16.3 million to £E28.5 million to £E65.8 million in 1938, 1945 and 1950 respectively. The increase in employment in industrial establishments (with ten employees and over) achieved 278,000 and 244,000 in 1947 and 1950 (Ibid), In 1951, there were 25,094 companies registered with the Ministry of Commerce of which 22,156 were engaged in industrial activities. The capital of all these companies was £E160,385,000. In addition there were 233,510 individuals in business of which 217,530 were in commerce and 15,621 in industry (Cumberlath, 1951).

Another feature of the development is the changes in industrial structure and diversification toward intermediate goods and consumer durables (despite the expansion of consumer goods industries like

textiles and food). In 1946, a new factory was established in Suez for fertiliser by Abboud (one of the famous Egyptian entrepreneurs during that period). In 1950 a new large motor vehicle assembly plant was installed by Ford in Alexandria. Moreover, there has been considerable activity in other industrial sectors. Just after the war the first plastic products were created by Shifferman, and before the 1950s Henry Rabbath started assembling refrigerators and other consumer durables (Cumberlath, 1951; Mabro, 1974).

The government has continued its policy of planning and encouragement for industry. One of the important moves was the formation of the Industrial Bank (1949), established to encourage the small industries and handicrafts (El-Bakry, 1973). Steel industry was established with potential production of about 120,000 tons per annum, mainly reinforcing bars and including small quantities of rail, rolled sections and plates. The Aswan Dam Hydro-Electric Project followed in the 1950s amongst the major projects and being sponsored by the government.

Real industrial output rose by 37 per cent and total production by 11 per cent between 1939-1945: per capita industrial production appeared to have grown just under 4 per cent per annum. This development was reflected in the number of employees in industrial occupations which increased by 50 per cent between 1937-1947 (CAPMS, 1964). In 1950 Egyptian private industrial sector provided employment for 92 per cent of the active labour force which produced 84 per cent of the national output and was responsible for three quarters of gross fixed capital formation.

However, in 1950 the Egyptian industrial system was still dominated by the manufacture of simple consumer goods. It appears that food processing and textiles were of overwhelming importance - measured in terms of net output or employment, while the manufacture of consumer durables, metallurgical products and inputs utilised by other industries and capital equipment were of little importance. Moreover, the industrial sector's share in the economy in general was only 15 per cent of the national output, and had only employed one tenth of the workforce (O'Brien, 1966). Furthermore, the Egyptian industry by the mid century had reached a kind of impasse as a result of: limited opportunities for further expansion at the expense of foreign products; the shortage of hard currency and difficulties, even, to use the available sterling accumulated after the war to buy new equipment and machines; resources' scarcity; low efficiency of manpower and an education not designed to cope with the industrial requirement; industry was subject to bureaucracy and under protected from foreign competitions; and the continuous flowing of capital out of Egypt accompanied by a growing of population. These factors contributed as obstacles to Egyptian development during that period.

In the meantime, the historical circumstances were unfavourable: debts created pressure from abroad through colonial interests to satisfy and the frustration resulted from struggling for independence from these powers.

Foreign indebtedness drained away considerable resources and coincided with the period of the export growth: this offset the benefits gained. The large surpluses accumulated after the Second

World War which might have helped in the industrialisation and development were eaten up by minority groups and foreign investors and left little to spend on education, health, public administration, and investment in projects contributing to economic development. Even after the war when the export economy faced a lot of difficulties there was a drain of resources transferred abroad to service and redeem public and private debts. The terms and costs of these debts led to more foreign intervention and to a loss of the country's independence.

The government failed to comprehend the problems of industry (Girgis, 1958). Despite the need for economic diversification of Egypt under the Khedives, the British and the semi-independent government of Egyptians, investment was badly neglected: some administrations lacked perception and others lacked the means. Mohamed Ali's successors took a long view on agriculture and ignored other sectors of the economy. Under the British investment in industry was not in their interests as they were concerned to control and safeguard their debt.

Moreover, investment in human resources was neglected for one reason or another. The semi independent governments were operating under financial constraints since they lacked fiscal autonomy. Their power was constrained by the capitalisation which prevented them from taxing the rich foreign community and from imposing tariffs. The state policies were directed to serve the sectional objectives of powerful vested interests (Anderson, 1968). They represented a small class of wealthy individuals unwilling to risk long run development whose wealth became entrenched in land, trade, and finance.

In addition, the reluctance to invest in stocks and shares may be considered to be one of the main obstacles to industrialisation. As well as the lack of state participation in economic affairs and disposition to force the pace of economic development. Despite that the government increased its freedom to finance new projects and its decision to establish the Industrial Bank was a limited attempt and not even directed to heavy industry (which might have been considered essential for industrial development)(Mead, 1967).

Crudely speaking, during the above period most of the state interference with the economy had been promoted by welfare considerations. The government started to recognise that poverty and the population explosion demanded positive policies in order to promote and encourage economic development.

In the industrial sector the state actively intervened to protect the workers against exploitation and poverty. This intervention might have followed the pattern of development of state rule which characterised the early days of the factory system and Western laissez faire societies. O'Brien describes this evolution in the Egyptian system:

"The public authorities, both central and local, regulated the conditions under which workers could be employed in the new factories ... established rules for the operation of collective bargaining ... provided free education ... and finally intervened to protect workers against the uncertainties of modern economic life such as accidents, unemployment, sickness, and old age"(O'Brien, 1966, p 63).

By 1936 working hours had been legally limited and employees had to be compensated for certain categories of industrial injury. During the wartime the government formulated a law governing the contract of employment (El-Din, 1965; El-Nikheley, 1966).

Comprehensive rules were drafted to include the mode of remuneration and discharge, holidays and sick leave, and companies were obliged to educate illiterate workers. Government attempts to protect workers against the rising cost of living continued during the war and by 1944 a statutory minimum wage of 10 piastres a day was prescribed, and increased to 12½ piastres a day by 1950.

In this way the government legally circumscribed the discretion of the entrepreneur and management of large organisations over their work force. Nevertheless, it did not permit labour to be organised to protect themselves (El Nikheley, 1963; Ibrahim, 1963; Gazaly, 1968). The government attitude towards the formation and operation of trade unions was hostile and sometimes aggressive. In the 1920s industrial action was prohibited and penalties against strikes stiffened. The judiciary could be relied upon to interpret the law relating to labour in a repressive manner throughout this period (O'Brien, 1966).

Gradually the government attitude changed towards accepting and sometimes encouraging the formation of trade unions subject to guidance of the state through the Ministry of Social Affairs. In 1942 the Trade Unions Act allowed collective bargaining to take place. Despite the fact that trade unions were recognised in manufacturing the government employees and agricultural labourers were forbidden to organise and wider national or general federations of unions were prohibited as well:

As far as the agricultural sector was concerned, the state had taken the first steps to establish banking facilities which

would provide small farmers with loans at lower interest than those charged by the village money lender. The principal policy which helped to relieve rural poverty was the promotion of cooperative societies. These societies were, beside the producer function, aiming to provide welfare services and social security to the farmers. However, this attempt was faced with many problems such as the isolation of farms scattered over the whole Nile Valley.

After the state actively began to encourage them, they spread so that by 1948 roughly half of all Egyptian farmers appear to have joined a co-operative society (O'Brien, 1966). By this time the state had introduced its own programme for rural welfare through Combined Centres. These centres were under a centralised administration and followed guidance issued from the Ministry of Social Affairs. These centres contained in a single building, "doctors, teachers, agronomists, and social workers who provided a given area with their respective services: public and personal health; education; agricultural extension - including veterinary services, infant and child welfare" (Ibid).

It seems that the government was too optimistic to commit itself to providing a Social Welfare Unit for every village and Egyptian co-operatives failed to develop into a comprehensive village organisation (Tanamley, 1962). By the mid century only 126 co-operatives had been founded and the population they served was only 1½ million (Shabanah, 1961).

Many reasons may have contributed to this failure, among them, the shortage of experts available and willing to staff village centres. In addition the Egyptian co-operative movement was

hindered as a spontaneous and voluntary response among farmers by the tight public control. The state tried to temper the effect of the Great Depression and the inflationary conditions of the war and post-war period by ensuring that sufficient cheap food continued to be available for urban populations. Between 1939 and 1944 the government was prompted to institute a system of control over the production and distribution of food. The state first attempted to stabilise agricultural income in the face of instability in world primary commodity markets in order to ameliorate the consequences upon the living standards of the poorer classes. The government put forward plans for the redistribution of land but this proposal never became law under a largely landowning parliament (Gritley, 1947; Girgis, 1958). So, despite the recognition of the need of social regulation of the agricultural sector, the government of landowners seemed unamenable to promulgating laws contrary to their own interest. These farmers who expected to gain from state participation and reform remained too poor with a low standard of living, and consequently without political power.

7.5 The Revolution and Command Economy Phase (1952- up to the present time)

From the previous discussion, it may be noticed that the Egyptian economic development was slow as a result of the difficulties associated with paucity of means and population growth. The burden imposed by past policies; external factors and the socio-political fabric added extra constraints which complicated the process of industrialisation before the revolution.

When the revolutionary junta seized power in July 1952 these were the problems which faced them. They began by pronouncing the necessity of ending exploitation; the redistribution of wealth in order to eliminate economic inequality between people and to guarantee a classless society. There were many reasons behind the political regime's desire to foster development and industrialisation many of which have already been mentioned in Chapter Four. However, the real starting point for the reorganisation of the society and industrialisation only took place at the beginning of 1960.

The process of industrialisation and economic development under the revolution has been divided into discrete periods marked by certain years as turning points. The free enterprise phase ran from 1952-56; guided capitalism from 1956-60; the planned economy and public organisation from 1960 to 1975; and the free economy from 1975 up to the present time (Badran, 1974; Bassiouni, 1979). The present study will briefly describe this industrialisation process, its development and problems encountered, the state of the workforce, and the impact of the political and socio-economic environment on the industrial relation system, in general without resorting to this kind of classification. The reasons should become obvious to the reader in the course of the next section.

7.5.1 Economic Development and Industrialisation

The economic condition of Egypt inherited by the revolution was characterised by many problems, mainly those of stagnation and lack of modernisation. In spite of the industrialising trend before the revolution the state efforts were not enough to bring about rapid

change. Credit is due to the revolutionary elite not for starting industrialisation but for initiating an important role of state intervention since Mohamed Ali.

The prime interest of the revolution was to implement development programmes aimed at removing the inequality imposed by the old system rather than to impose a long term programme (Dekmejian, 1972). Perhaps, this may have resulted from the desire of the revolutionary cabal to fulfil people's hopes that 'the people revolution' would bring freedom and prosperity to the country. As we suggested in Chapter Four this is the main point of weakness of all revolutionary elites.

I. Agriculture Sector

Despite the continuous increase in agricultural output during the period before the revolution, it failed to expand rapidly enough to match the increasing population. The political regime seemed to recognise the fact that the growth of the agricultural sector is a necessary concomitant to industrial expansion. It helps in supplying food for the growing population; provides a market for the output of manufactured consumer goods and can (as an export crop) create a surplus to be invested in the other economic sectors. In addition, a failure of agricultural output to expand rapidly will make it difficult for the rest of the economy to maintain a high growth rate (Mead, 1967). Therefore the new regime spent their efforts in raising agricultural output. To achieve this goal, they resorted to increasing the number of land owners and enacted a land reform in September 1952, six weeks after the coup d'etat (Dekmejian, 1972). In fact this approach was similar to that proposed in 1950 before the

Revolution by the Minister of Social Affairs for submission to the Parliament, as mentioned before a proposal that was not put before the House because it was considered inimical the interest of wealthy landowners (Girgis, 1958).

Before the revolution the agrarian problem in Egypt resulted from inequality and growing poverty which arose from the ways in which land was acquired and distributed in large holdings in the nineteenth century (O'Brien, 1966; Mabro, 1974). For example, in 1952 and before land reform 2,000 owners held 20 per cent of the total area, while at the other end of the spectrum more than 2 million owned only 13 per cent of the total area (Mabro, 1974).

The land reform, therefore, aimed to correct the maldistribution of ownership; remove the imperfections of the capital market; and increase and stabilise the income of poorer peasants. However, this reform was considered as a political move by many others. One has claimed that it was aimed at diminishing the power of landowners and hence remove a dangerous source of opposition to the young free officers while bringing the peasantry class into the body politic as a source of potential support (Dekmejian, 1972).

Although the above deduction might be true, the social and economic significance of the reform must be stressed. From the social point of view it attempted to tackle the maldistribution of landownership which was a prime cause of poverty. Ideologically the agrarian reform can be considered as a concrete step towards correcting inequality (Mabro, 1974). Also, it reflects the regime's desire to achieve social justice by closing the gap between the classes in an attempt to create a national entity - "one happy

family" according to Nasser (Dekmejian, 1972). From the economic point of view, the reform attempted to raise the standard of living and economic status of the "Fallahin" through land distribution. Also, it helped the regime to extend its control over the agricultural sector in order to ensure a predictable level of performance, particularly after reforming institutions to replace control by landlords (O'Brien, 1966). These institutions (mainly cooperative societies) provided the regime with a strong measure of control over the agricultural sector through the organisation of production and the marketing of the crops (Ibid). Although the farmer became liberated from landowners and middlemen, he was still expected to perform within the revolutionary system of control.

"It is not enough to assign to the fallah a plot of land leaving him to himself: he should learn the best method of cultivation and should be offered technical and material help" (Dekmejian, 1972, p 142).

A major implement in government control was its monopoly over the supply of credit, fertilisers, irrigation, machinery and cotton purchase (Dekmejian, 1972). Also, the government attempted to exploit every possibility of increasing the agriculture output. It was clear to the regime that agriculture development had reached a stage where it crucially depended on better inputs and improved method of cultivation. Their major contribution was to build the High Dam at Aswan in order to increase the area of arable land and to provide irrigation and water and cheap hydro-electricity to the industry (High Dam Authority, 1955).

As a result improvements in agricultural sector have been achieved. The calculated indices of agricultural production and its

contribution to the national income for the whole period for the years 1952-75 show a constant increase (CAPMS, 1977). However, the government policies have not been entirely successful in the agriculture sector. For example, although the cooperative society structure has improved productivity through increased use of technical facilities and have provided a convenient network akin to an agricultural higher education extension service, they have not altogether been successful. They have (Mabro, 1974):

- (a) failed to provide economies of scale required by certain agricultural activities in order to ensure certain quality of performance
- (b) failed to undertake pest control as a result of inadequate supplies of pesticides. This has been caused by bureaucratic inefficiencies in distribution and the creation of artificial shortages by corrupt officials
- (c) the cost of cotton cultivation has been raised by increased labour costs. These costs are again attributable to the high cost of administration rather than direct benefits to the workers. Labour has not yet been organised effectively in the newly "industrialised" units, hence overall labour costs have risen dramatically
- (d) the monopoly in marketing and supply has turned out to be double edged instrument which has affected the pattern of economic incentives and resulted in abuses of power.

II. Industrial Sector

At the beginning and during the period of 1952-56, the political regime attempted to achieve industrial development by employing and following traditional methods to encourage investment in industry rather than interfering with the stock market. The belief in the ability of the private entrepreneurs to steer the economy along a path of sustained growth remained (Bassiouni, 1979). Familiar kinds of 'mixed economy' actions were taken and laws promulgated higher protection, tax concessions, and reform of company regulations in order to encourage higher levels of investment by private industry (O'Brien, 1966). The regime also encouraged domestic capital investment in industry in an attempt to repatriate funds sent abroad by private citizens. Duties were raised on competing manufactured goods and reduced on capital goods and raw materials. Some companies were exempted from taxes on profit to encourage their growth. Also, the regime tried to attract foreign investors by various laws passed in 1953 and 1954 (Dekmejian, 1972). These laws allowed foreign shareholders to hold a majority interest and control in any Egyptian enterprise. Profits were allowed to be transferred abroad and the whole accumulated capital transferred within five years of the date of investment (Law 430/1954). The response of foreign investors* as well as the Egyptians was poor (UN, 1955).

* Only £E870.000 thousands of foreign capital was brought into Egypt by 1955.

As a result of this failure, the elite group recognised the need for government action to fill the gap in leadership by active participation in formulating, financing, and executing industrial projects (Badran, 1974). By establishing the Council of Production, the government initiated and participated in several new projects particularly in the area of heavy industry eg metal industries, iron and steel industries, chemical industries (O'Brien, 1966).

Historically, however, the turning point of the government policy towards free enterprise phase came in the year of 1956 when the International Bank refused to finance the High Dam project (Dekmejian, 1972). At that time, President Nasser decided to nationalise the Suez Canal Company as an alternative source of finance. Further international difficulties followed the alienation of Egypt from the West reinforced the government's will to control the country's finance.

Yet, it seemed that the Revolutionary Junta (particularly in 1957) came to view increased state ownership of the means of production as a necessary precondition for economic development (El Kamash, 1968). Two Egyptianisation laws were issued transferring the largely foreign owned commercial banks and insurance companies into Egyptian joint stock companies.

Moreover, in order to ensure comprehensive economic planning of new public enterprises a number of organisational laws were issued in 1957 creating new state agencies (Badran, 1974). These coordinative agencies included the Economic Development Organization (EDO), the Supreme Council for National Planning (SCNP) and the General Organization for the Execution of the Five Year Plan (NASR). The EDO was probably considered the most important of these and was

given wide authority to set up new companies and supervise other public organisations which were put under its control. In order to ensure uniformity of purpose it was charged with the distribution of public funds in various fields of economic activity. It had shares in fifty four companies, of which ten were owned completely by it while it held shares in the range of 20 per cent to 99 per cent in the others. These companies covered a variety of activities such as eight in banking, three in insurance, ten in oil and mining, six in transport, six in chemical industries, three in ceramics, six in spinning and weaving and dyeing, and the remaining six in other activities (El Barawi, 1972).

The activities carried out by EDO involved investment of £E57.900 thousands during 1957 and increased rapidly to £E71.235 thousands by 1960. The companies affiliated to EDO were estimated to produce 33 per cent of aggregate output and employed 20 per cent of the labour force (O'Brien, 1966).

The state control increased and intensified through the enactment of additional laws in 1958, Law No 28/1958 extended the authority of Ministry of Industry over new industrial establishments. This law served as the legal framework whereby they were subjected to license to produce, to obligatory specification of product types and permits for industrial expansion. Another Law 114/1958 put restrictions on the Board of Directors in both appointments and on the maximum allowed salary level (Dekmejian, 1972). According to this law no one person could hold more than one directorship and could not receive more than £E2500 annually.

Further a Five Year Plan was announced in 1958 with the main objective of increasing the rate of growth of the national economy in order to raise the standard of living. This plan required the investment of £E34 million of which 61 per cent was to be provided from public sources (Ministry of Industry, 1957). However, this plan focused on investment in heavy industrial projects while light industries and more profitable outlets in the service sector were left to private investors.

Subsequent laws and decrees had a sharp effect on foreign investment which declined sharply. Even American loans ceased as the USA refused to continue to cooperate further with the revolutionary regime (Bassiouni, 1979). It was a golden opportunity for the USSR to step in to fill the gap. It offered finance for the High Dam project. Moreover, it announced its willingness to enter into an agreement in 1958 envisaging a five year industrial expansion plan of \$750 million (Laquer, 1972). Most of these loans were intended for the state's own industrialisation projects and in turn led to a further increase in the size of public sector.

By 1961 the elites' ideological development had reached a stable stage. This was reflected in the growing statist attitude of the political elite which had moved away from advocating a mixed socialist-capitalist economy towards increasingly adopting socialist statism (Dekmejian, 1972). This year represented the most revolutionary period of internal social change in Egypt. Over that period, a spate of socialist laws had been passed in order

to ensure the state's control of the economy.

In March of 1961 the regime set up four organisations to serve as the foundations for the subsequent nationalisation of the economy. After the nationalisation of the Bank Misr and its group of holdings, the government created the Misr Organization to supervise the companies previously belonging to the Bank (Bank Misr, 1962). Its main aim was to pursue economic development through investment in finance, industry, and agriculture. It acted as holding company for the complete and partially nationalised organisations, except those established by the General Organization for the Execution of the Five Year Industrial Plan (NASR). The Nasr Organization functions as a separate industrial holding company and supervises other companies affiliated to the Ministry of Industry outside the sphere of EDO (Dekmejian, 1972).

The government established the Supreme Council for Public Economic Organization to be responsible for general policy-making of all state economic enterprises. This intricate organisational structure was aimed at extending state control, management and ownership through a diversity of means.

In June 1961 another group of laws consisted of a general regulatory for trade. Control was placed on cotton sales, exports and closure of the only two exchanges and the futures market (Ibid).

Other groups of laws were passed to make the state the supreme capitalist in the land in July 1961. The remaining banks and insurance companies and forty two industrial, commercial and

other companies were nationalised by Law 117 of 1960. Eighty-three establishments were partially nationalised (50 per cent) on the same day by Law No 118. A limit was set to individual ownership at a maximum of £E10,000 in 145 listed companies by Law 119. All excess holdings were transferred to the state in return for Fifteen Year 4% Government Bonds (Dekmejian, 1972; Badran, 1974).

By December 1961 the whole public business sector was grouped into thirty-eight public organisations under the Supreme Council for Public Organization, which was headed by President Nasser himself. The Council's main tasks were to define production targets, ensure intra-firm coordination, approve budgets and supervise general progress (Ministry of Industry, 1961, 1962).

The government involvement in economic development therefore became increasingly greater and continued during the following years. In 1963 the government nationalised four hundred apartment buildings, eight contracting, transport and navigational companies, and fourteen pharmaceutical companies as well. In August of the same year a further two hundred and forty firms were listed to be taken over. Also, the six landholding companies partly nationalised in 1961 were completely taken over on 17 November 1963 (Federation of Industry, 1965).

The government's nationalisation policy was pursued through 1964 and 1965. Eleven trading companies were taken over by Law 51 of 1964. Also, under Laws No 92, 120 and 123 another one hundred and fifty five companies were nationalised. In an attempt to establish even greater state control, the main thrust of government decrees

between 1965 and 1967 was towards the amalgamation and consolidation of insurance companies, banks, steel works and other firms (Ibid).

The laws and decrees of Egypt over this period were aimed at making the public sector of the economy preponderant. As a result, it expanded to include 70 per cent of all industry (Ibid). There was preponderant state ownership and control of manufacturing and mining sector of the economy and almost complete government take over of public transport and control of financial activity and foreign trade. Nevertheless a large portion of internal trade (75 per cent) was left in private hands as full government control was difficult to achieve.

By these laws the regime gained overwhelming economic control in addition to their existing military and political dominance (Dekmejian, 1972). The organisational structure of the economy was shaped around the public sector and guided by the central planning bodies. Yet, despite the growth in the public sector its success was limited as losses increased and consequently the government borrowing increased (Ministry of Industry, 1970). Perhaps the main reasons for the failure of public organisation arose from the high cost of administration, overmanning and unused capacity (Badran, 1974; CAPMS, 1976). This unused capacity became pronounced in 1967 when a large part of the country's resources were diverted towards military expenses (CAPMS, 1976). Again the defence policy of 1972 and 1973 absorbed most of the available foreign currency. In 1974 spare parts and new equipment could not be brought for factories and many factories operated at one third capacity (Ibid; Ministry of Industry, 1974).

Moreover, population growth influenced the structural changes in a way which did not enhance the country's ability for sustained economic growth (Mabro, 1974). Because Egypt, as a case of a land-scarce economy with a limited ability industrial sector, the structural changes reflected in the expansion of services employment unrelated to the new demand put on the tertiary sector by the growth of agriculture and industry, or to the development of the infrastructure. This growth in service employment was therefore a product of population pressure rather than basic industrial development.

Also, despite the state's efforts to develop a high rate of economic growth, it failed because of its inability to finance the balance of payment deficit (Ministry of Planning, 1977). This balance of payment deficit arose as a result of an export-import gap (Mabro, 1974). The political regime's attempts to accelerate economic development through raising the investment ratio were restricted because of their inability to check the growth of consumption which they were committed to allow to increase (Dekmejian, 1972).

In the meantime, the regime's commitment to employ all graduates as an attempt to remove the political dangers and socially undesirable emergence of unemployed radical dissent, had a negative impact in the development. The surplus supply of graduates created exceeded the requirements of the economy for their skills. This imbalance between manpower supply and demand, and the misplanning of the education system go side by side with the industrial imbalance to create chronic distortions in the allocation of labour. It can be said - as some officials argue - that the education policy has to

some extent transformed unemployment of the unskilled into unemployment of the educated.

By 1973 the government's attention was largely centred around these internal economic problems and the regime was intent upon introducing new policies to enable them to overcome these accumulated difficulties. The main change took place through the Open Door policy of 1975 which aimed at encouraging foreign and private sector investment and reducing the size of the public sector in the long run (Ministry of Planning, 1977). To achieve this objective a new investment law was passed encouraging foreign companies to set up joint ventures in the country. To take advantage of the new policy banking laws were amended to smooth the path for the establishment of foreign banks (Bassiouni, 1979). To create incentives for domestic savings, tax laws were also amended (Ibid).

However, in spite of the government's efforts to pursue foreign investment and create a better financial climate, their efforts have been hindered by government bureaucracy and the slowness of the system to adapt to the change in course (Ministry of Planning, 1977). By 1975 more freedom of decision making was given to the Boards of public companies (Ministry of Industry, 1976; Ministry of Planning, 1977). The control that public economic organisations maintained over the policies of each private company, their powers over company budgets, over the fixing of production targets and prices, ability to raise capital and make investments was drastically reduced. However, they still could not control other policies. For example, the government continued to constrain wages and to maintain full employment as a priority which affects the overall efficiency of any organisation (Ministry of Planning, 1977).

7.5.2 The State of the Labour Force and Development of Industrial Relations System

The present period (1952 until now) has witnessed a massive increase in the Egyptian labour force, particularly after the nationalisation of the main economic activities. In 1947 the total labour force was 4,492,700 million, in 1961/62 it had reached 6,656,900 million, and in 1975 9,430,300 million of which the private sector represented 60 per cent and the public sector 40 per cent (CAPMS, 1955, 1963, 1977).

This increase in the labour force was accompanied by noticeable decline on the agricultural employment. Sixty eight per cent of the total employment in 1897 was in agriculture, this dropped to 44 per cent in 1975. Industrial employment which was only 277,000 in 1947 had reached 1,175,000* million by 1975 (Ibid).

In fact, from the beginning the political regime committed itself to a major increase in employment, and a redistribution of the national income. The workers and peasants (fallahin) were the main beneficiaries of the new regime (Dekmejian, 1972). Historically, however, the first act of the nationalist leaders in the area of industrial relations reflected the contradictions of a military regime jealous of its authority but concerned at the same time with some forms of welfare. The first two victims of an otherwise bloodless and moderate coup d'etat were unfortunately two workers, summarily executed at Kafer-al-Dawar near Alexandria on 14 August 1952 for

* This figure does not include employment in the construction and electricity industries.

leading a strike and the occupation of a factory (Mabro, 1974, pp 152-153).

However, the regime modified the previous trade union law (85/1942) and extended it to all workers and employees but not to government and municipal employees (El-Nikeley, 1963; Mabro, 1974). It also allowed for the establishment of a trade union federation. By 1958 there were 1,377 trade unions in operation with a membership of 433,000. However, Law No 91 of 1959 reduced the number of permitted trade unions to only 59 (O'Brien, 1966; Mabro, 1974).

Strikes became illegal and an Advisory Council for Labour was reconstituted with union representation (Mabro, 1974). Trade unions were encouraged within the new structure of government registration and approval. Later membership became compulsory for certain categories of workers (Ibid). But these unions had little freedom of action and were subject to financial, political and administrative controls of a similar corporate nature to that governing industry.

There were no overt signs of labour unrest in Egypt until 1968 when after Egypt's defeat in the Israeli conflict demonstrations against food prices took place in Cairo and Helwan. The regime responded very quickly in the form of economic concessions followed by reinforced security measures. Some trade union leaders and some students were arrested and imprisoned until 1971.

Earlier, in 1956, an insurance scheme was introduced to cover employees in big companies financed by employers' contributions (Ibid; Andsley, 1958). This scheme was extended to cover all employees in other companies by Law No 92 of 1959 (Mabro, 1974). The security

of industrial employment was strengthened in 1956 by increased legal guarantees against dismissals. Three years later a new Labour Act (91/1959) included a reduction of hours of work to eight, increased sick pay, indemnities against termination of employment, guaranteed annual holidays, prohibition of child employment, limitation of employers' right to dismiss workers, and minimum wages (which had already been introduced in 1953 but was not seriously enforced until that date) (Issawi, 1963; Mabro, 1974).

Moreover, the Labour Act established joint consultative committees in every firm employing 50 workers or more; the committees were to include equal numbers of management and workers' representatives. The committees' functions included making recommendations to the board with regard to industrial safety, working conditions, training programmes, improving productivity and the relationships between workers and management, all of which were not obligatory upon managers etc.

Such advisory committees were in application before 1959, particularly in the foreign companies. The difference was only in the voluntary nature of these committees which after the new Act became compulsory by law. Nonetheless, the compulsory application of joint consultation committees does not seem to have been as successful as in some other countries such as Britain. The exclusion of union officials from standing for committee membership results in their alienation and sometimes opposition of these committees (Al-Kassab, 1977). Moreover, a communication gap has been created between the workers' representatives on the joint committees and the shop stewards' committees (Ibid).

Workers and employees had gained further statutory benefits in the laws of 1961 and 1962 following the nationalisation of all main economic activities (Badran, 1974). This latter period is considered to be the most revolutionary period of internal social change in Egypt. It was regarded by the political regime as the start of the new order (Dekmejian, 1972).

It was this time that employees' profit sharing was introduced (Law 111 of 1961).^{*} Employees also started sharing the management of their enterprises through elected representatives on the board (Law 114 of 1961) in pursuance of the goal of social justice as announced in the revolutionary junta programme in 1952 and furthermore to put into practice the idea of the worker as part-owner of the means of production (Charter, 1962).

According to the law (114/1961) two members of each board were to be elected from among the workers to serve for a term of one year (Fahmy, 1966). Two years later the number of workers' representatives was raised to four members and their term of office was doubled by law 141 of 1963 (Ibid). From the outset, the management had shown their dissatisfaction of the idea of workers' participation in the board by delaying board meetings or dismissing elected members (Badran, 1974; Fahmy, 1966). Subsequently the political elite passed two laws which stipulated that board meetings should be held at least once a month and the board had no power to dismiss any of the workers' representatives (Law 142/1963 and 143/1963). Nevertheless it was clear from the beginning that harmonious relations between elected and appointed members of the board were not the rule (Badran, 1974).

^{*} The scheme will be discussed in the following chapter.

Moreover, at that time another group of laws was passed to redistribute the national income in favour of the working and lower classes. Law No 133 of 1961 limited all salaries to £E 5,000 per annum, while Law No 115 of 1961 placed a tax rate of 90 per cent on incomes above £E10,000. Working hours were reduced to forty two hours a week without reduction in employees' earnings (Mabro & Radwan, 1976). There was statutory enforcement of minimum wages and the cadre of wages (upon which the national distribution of income was based) was revised and the technique of job evaluation was applied for the first time (Bassiouni, 1979). This resulted in a big rise in employees' salaries and wages over the period, particularly among manual workers.

"Average money wages of manual workers in industry rose by 32 per cent between January 1962 and January 1964, a larger increase in twenty four months than in the previous ten years" (Mabro & Radwan, 1976, p 135).

In addition, manual workers were permitted fourteen days paid holiday plus the official and religious holidays, workers' sick leave was raised to 180 days a year with little reduction of their remuneration for the first three months (Ibid). Other modifications included Law No 61 of 1971 by which for example paid annual holidays were extended to 21 days after completion of one year and one month after 10 years, and women have gained the right of paid maternity leave for three months each child (Ibid). However, it was not until 1972 that the minimum wage legislation (25p per day) was enforced in all private firms so that the above reforms have to be seen as being largely confined to the public sector.

Education in general, and for the labour force in particular, was the focus for considerable efforts from 1952. State expenditures

on education increased from £E23 million in 1952/53 to £E126 million in 1969/70 and reached £E328.9 million in 1976/77, which at that time represented 5.5 per cent of the total government investment (CAPMS, 1955, 1971, 1978). Previously education was confined to that part of the population that had sufficient means to pay the fees. After the revolution the government endeavoured to provide free education because it believed that education was the right of every Egyptian citizen regardless of his income. The effect of this policy was evident in the massive increase in the number of students enrolled at all the stages of education during the period 1952-1976. The annual number of students increased three and a half times over the period (Ibid). Moreover, the education of women gained great attention. In 1937 the ratio of educated women did not exceed 6 per cent, gradually this proportion increased until it reached 21 per cent in 1966 and 36.7 per cent in 1976 (Ibid).

But there was a gross maldistribution of educational resources. The rate of education in urban areas was higher than rural areas. In urban areas educated people amounted to 54 per cent of the population in the census of 1966 (35 per cent males and 19 per cent females). In rural areas it reached only 20 per cent (16 per cent males and 4 per cent females) (CAPMS, 1968). By contrast, the number of graduates from universities created as a result of pre-revolutionary policies appeared to many observers to have exceeded the needs of society at that stage of economic development (Mabro, 1974). Changes in the education policy in order to match the needs of industry remains a major prerequisite for balanced economic growth. Sixty nine per cent of those employed in the public sector (47 per cent in agriculture, 71 per cent in industrial companies and 67 per cent in the service sector) remain

without any qualification and many of these are illiterate, as proved by one of the recent official studies (Mongy, 1975).

Conclusion

One is able to make some comments following the above brief discussion of the economic development and industrialisation in Egypt, its historic periods, problems, labour force and its development, and the different ideologies which governed the relations between management and workers during that history and up until the present time. Although industrialisation and economic development has had a long history in Egypt since M Ali's rule, in reality it started in earnest in the fifties of the present century after the nationalist leaders seized power in July 1952. Since then the state, after several attempts to encourage both foreign and local entrepreneurs to carry out and to foster industrialisation, has assumed full responsibility of development and industrialisation by establishing the public sector.

Also, the available data suggests that the development of an industrial relations system has been affected and determined to a great extent by the surrounding political and the socio-economic systems. The impact of these systems in general and on industrial relations in particular has been traced in this chapter in the course of five successive historical periods. It may be seen that the state's intervention during recent history has improved the condition of the workers since the state has taken measures to alleviate their hardship and stabilise working conditions. This concern for workers' satisfaction may be seen as designed to ensure that workers - in a command economy - are partners and part owners of the means of production. Thereby, the

state has reduced the fear of workers' revolt against the regime, and of class struggle on the one hand, and has ensured workers' allegiance to the objectives of the political elite on the other hand.

At the beginning of the 1960's, industrial democracy and participation has gained currency as part of a wider ideology and a doctrine by which to govern and to achieve a socialist economy in Egypt. Ever since, workers in the public sector have gained the right to manage their enterprises and to share in its profits. Participation has been applied in Egypt in a more overt manner and had to be implemented by force, while in the industrialised Western countries, such as Britain, the application of such an ideology has been voluntarily adopted rather than compulsory imposed by the state. In general it might be said that English workers have only the right of consultation while their inexperienced counterpart in Egypt has the formal right of sharing decisions and profits.

In introducing these techniques the nationalist elite can be seen to have attempted to reduce workers' hostility to and alienation from the bureaucratic framework that surrounds government and industrial control. The leaders believed that satisfaction leads to an increase in worker efficiency and productivity: but besides this was a desire to increase workers' moral involvement in their work, there is the need to extend their involvement to the regime. The workers' awareness of a charismatic leader was to be complemented by an awareness of their own contribution made to the national objectives of the enterprise. Therefore, the moral involvement of workers - political followers - has to become disengaged, and routinised within the bureaucratic context of the work place. Participation therefore plays an important

role in the transformation process because it fulfils so many political and socio-economic functions.

It may be seen that the application of such a scheme is politically rather than economically motivated, and that its sudden introduction is externally imposed by the ruling elite and not an internal response to the demands of the workers or management. Indeed, the need for rapid industrialisation and development was seen to demand the adoption of the managerial system of advanced Western countries. The question whether the forceful application of bureaucratic systems in such circumstances could satisfactorily achieve its objectives remained a problem. Participation was a means to educating workers to this new work context. But in the context of a developing country it can also be seen as one aspect of a complex system of social control in which the industrial relations system has to be linked with that of the political ideology. It has thus to be seen in terms of its overall purpose of achieving industrialisation without the fundamental crises that have beset most other industrialising countries.

CHAPTER EIGHT

The Egyptian Profit Sharing Scheme

Introduction

This chapter deals with the introduction and workings of the profit sharing scheme in Egypt. It highlights the historical development of the scheme since it started in July 1961 as a government-initiated scheme introduced as part of the transformation of the Egyptian economy from private to public ownership. The objective of the chapter is to illustrate the main characteristics of the existing profit sharing scheme in Egypt.

8.1 The Main Characteristics of Employees' Profit Sharing Scheme in Egypt

The most important characteristic of the profit sharing scheme in Egypt is that the scheme was introduced and applied in Egyptian public sector as a whole by the law, which was issued in July 1961 (Law 111/1961). Simultaneously, it was accompanied by employees participation in management (Law 114/1961). Nevertheless, this does not mean that profit sharing schemes had not been applied in Egypt before that date. In fact there were some companies, especially foreign ones, which applied such schemes before in various forms and conditions with different objectives (Kamel, 1971). So, actually it was only the first time for it to be applied in general by law after the big transformation process which occurred in the Egyptian economy towards the creation of the public sector.

8.1.1 Employee's Profit-Share

The employee share in profits is fixed as a permanent proportion of net profits, determined by law at 25 per cent. This proportion is then distributed as follows (Law 111/1961):

A - 10 per cent cash immediate distribution, which is organised and determined each year by Prime Minister's Decree.

B - 5 per cent for social and housing services for employees always to be deposited in a Central Bank account.

C - 10 per cent for central social services for employees, again always deposited in a special account at the Central Bank.

So, according to the law, each employee always receives his profit share in two parts: A) an immediate cash distribution with a maximum of £E75 for each employee, and B) deferred distribution represented in social and housing services on a company or regional level, and on the state level in such services as public hospitals, housing, roads etc. The latter might therefore be described as a general tax on company profits.

8 1.2 Rules of Distribution of Cash Profits

The cash share profits are distributed to employees first of all on the basis of each employee's gross salary and wage. This salary and wage are determined as follows: (NEPC, 1965)

A - the gross salary or wages received by the employee for the grade to which he is appointed.

- B - added to this sum is the production bonus and commission for workers on piece-rate wage
- C - deducted from this gross salary or wage are the penalties, and number of absent days except for annual holidays, official holidays, sick leave, and national service period.
- D - allowances for professionalism, representation, "desert service" and encouragement incentives are excluded from the gross salary or wage.

Each employee's cash share value does not exceed in any year the maximum of £E75 stipulated by the law (The Prime Minister's decree No 217/1978). Also, the law allows a second distribution of the remainder of the 10 per cent cash share to employees on the same basis, to those employees who did not exceed the maximum, on condition that both distributions do not exceed £E75. The rest of the employees' share of profits will be deposited after that in a Central Bank account. Actually, the Prime Minister has the right to use this surplus for distribution to employees in companies which did not make any profit or those whose profits are low for reasons outside of their control.

8.1.3 Time of Distribution

The employee's share in profit is divided into two parts: cash and deferred distribution.

- A) The cash distribution is usually paid after the termination of the fiscal year, and the preparation of the balance sheet and its approval by the authorised Minister. And in addition, it must comply with the conditions of the Prime Minister's

Decree which lays down guidelines for the cash distribution value each year. In fact, the time of distribution is inevitably delayed until the middle of the next fiscal year, if it is not postponed after that even. So, the time of distribution depends upon finishing and auditing the balance sheet, its approval and the time taken in issuing the Prime Minister's Decree. Actually this delay has extended to up to two years in respect of some year's distributions.

- B) Deferred distribution in the form of housing, social services at regional levels and at the state level, is only vaguely related to profit performance. Moreover, this deferred share has never been distributed or used for what is its supposed purposes except in two cases, when President Nasser visited Aswan, and Shobra El Khima companies. It was his political decision, at that time, to use this money to build new housing for employees in these two regions.

8.1.4 The Role of Profit Sharing as Part of the Reumuneration Package

The basic level of remuneration for all employees in the Egyptian public sector is determined in accordance with the National Cadre of Wages and Salaries and job evaluation system laid down by the Presidential Decree of 1971 (Presidential Decree No 61/1971 concerning regulating employment in the public sector).

This Cadre came as the latest step in the endeavour to improve the condition of workers (Fahmy, 1974). Historically, as has been demonstrated in the previous chapter, since the revolutionary elite took over power in 1952, it has tried to eliminate the hardship of workers, regulate employment conditions and guarantee

and raise the minimum rate of wages for the lower groups of employees. The evidence gathered in the thesis suggests that political reasons were behind this as demonstrated in Chapter Four. One allows, however, that there were also social and economic considerations. The government committed itself to modernisation and industrialisation programmes which it thought would help in solving the main problems of a new developing country. It also wished to raise the standard of living and guarantee a just remuneration system which would help in achieving both objectives, as well as reflecting the socialist values which were laid down in 1961.

Nevertheless, the state's attempts from 1952-1961 were limited due to management opposition and dissatisfaction with government's intervention (for example, in many cases companies tended to set the wages of employees at the most minimum possible level required by law). Entrepreneurs also took advantage of workers' slight knowledge of the labour market to exploit them (Bassiouni, 1979).

From 1961 until the Presidential Decree of 1971, a number of modifications and additions were made, providing a more generous system of social security benefits for all employees in the public sector (Law 133 of 1961; Law 50 of 1963 and Law 63 of 1964). But it was only in 1971 with the above-mentioned Presidential Decree that a new "comprehensive" system of remuneration was enforced by which there would be equal pay for equal work; a more rational basis for pay differentials, which would provide economic stability; reduce social stratification since wages are the basis of stratification in command economies; permit a reasonable and acceptable life for workers and allow for the surplus to be reinvested, and achieve a pay system

representing the employees' effort in national production expressed in cash and distributed according to quantity and quality of the employee's performance (Fahmy, 1973; Bassiouni, 1979).

The National Cadre of Wages and Salaries laid down in 1971 Presidential Decree consists of four main levels and each of these is in turn subdivided into grades as follows: a top management level including grades A, B and one; a first level subdivided into grades two, three and four; a second level including grades five, six and seven; and a third level including grades eight and nine (Presidential Decree 61/1971). Moreover, the decree provides a national scale of wages and salaries for each group of employees. According to the National Cadre the scale for managerial employees is determined by grade seven up to grade A; technical employees' scale from grade three to eight; manual workers' from grade six to nine; and supporting services workers' scale which includes only grade eight and nine. The minimum wage and salary is £E360 per annum (from July 1981), and the maximum is £E2,000 (Al Ahram, 3 May 1981).

However, there are a number of other factors which affect the employees' level of earnings and overall income. There is another classification for public sector companies which was devised by the government in constructing the Cadre and which takes into consideration some organisational factors such as a company's importance to the economy, and size (Bassiouni, 1979). According to this additional classification there are three company levels: big, medium and small companies. Therefore, the chief accountant's salary in big companies is not the same as that of his equal in small companies, nor does that of workers on identical spinning machines in big and small companies. Moreover, personal factors such as sex, age, marital status and length of service, play a part in Egyptian wages and salaries structure. In

addition, the calculated level of profit or value added made by the enterprise is another factor influencing to some degree the level of employees' earning - although all Egyptian public sector companies pay the same fringe benefits as required by the present legislations. This comes in the form of bonuses, exceptional increments and selective promotions.

The application of the Cadre was brought forward as a rational and acceptable basis for pay differentials; ensuring equal pay for equal work and reducing the gap between higher and lower levels of pay without affecting the relative importance of each position. However, these objectives have not been achieved (for further details see Bassiouni, 1979).

In addition to this basic level of remuneration fixed by the Cadre, profit sharing represents a certain proportion of employees' overall income. However, it is only a small proportion, as can be gathered by referring to the official published reports (Ministry of Industry, Reports of Achievement, 1975; 1976; 1977). The maximum limit of employees' share in the profits is £E75 which at best represents less than 20 per cent of the annual wage of supportive groups and at least is 3.75 per cent of the annual salary of managerial employees - supposing that the maximum of £E75 is available for distribution. Moreover, for example, in 1977 some companies distributed profits to their employees equalling a three day wage only.

8.2 Development of the Profit Sharing Scheme in Egypt

In July 1961 President Nasser announced the government's decision to take over and manage the main economic activities. This entailed the nationalisation of Misr holding company with its affiliated companies (banks, transport, manufacturing companies and public utilities). This provided the nucleus of a big public sector. There was also, in the government's mind, the problem of how to manage this conglomerate without the profit motive as its primary motivation and purpose. The solution was to let employees share in the management and profits of these companies. The government reasoned that by allowing the employees to "enjoy the rights of owners" they would in turn increase productivity, efficiency, and their commitment to their employing organisations as well as to the political regime. The outline of the profit sharing scheme was set out in July 1961 with Law 111/1961 (Kamel, 1971). According to this law, public sector companies had to distribute 25 per cent of their net profits for the benefit of their employees. Two-fifths of this amount was to be paid in cash; one-fifths to a welfare fund for social and housing services jointly managed by management and trade unions; and two-fifths to central social services provided for all employees.

Following this, there was a Presidential Decree to define the rules of distribution of the employees' two-fifth share of profits (Presidential Decree 1350/1962, Item 1). According to this latter decree the annual cash distribution was and is still on the basis of a proportion of each employee's gross salary or wage with a maximum of fE50 for each employee. The remainder of the employee's share (if any) would be redistributed, following the same rule so that both distributions would in total not exceed LE50 per each employee.

A year later, Act 96/1962 was passed stipulating that it is possible by Presidential Decree to set aside a part of the sum received from this cash proportion (10 per cent of companies' profits), in order to distribute it to employees in companies not making any profit or making only a low profit, not as a result of operating inefficiently or employee slacking, but for reasons beyond the company's control (Act 96/1962). This Act was intended to compensate employees in the latter companies for their efforts and to equalize their income with that of their colleagues in profit making companies.

It became clear, after the first year of application of the profit sharing scheme, that the government wanted to reduce the ratio of profits distributed to employees in cash. The reason behind the limitation has not been published until now, but extensive interviews that the researcher has carried out with some top officials and others involved in senior management, showed clearly that the government's purposes was a) to control the inflation which arose as a result of the first year's distribution, and b) to use that part of the employees' share rescinded to the government to finance the first national economic plan.

Nevertheless, in 1964 the government extended the application of profit sharing scheme to include employees in the private sector and organisations other than these which were totally nationalised as follows (Act 1/1964, Item 1):

- a) Employees in the government coordinated organisations practising commercial activities to be defined by Presidential Decree.

- b) Employees in the co-operative societies affiliated to general organisations which would be defined by a Presidential Decree.
- c) Employees in limited liability companies with a capital not less than £E20,000 which would be defined by Presidential Decree.
- d) Employees in branches or offices of joint stock companies which operate outside Egypt - for profits resulting from their activities which occurred inside Egypt.

The distribution of employees' cash share was regulated annually by each individual company and according to its circumstances until the fiscal year 1964/1965. After that, the Prime Minister became solely responsible for determining rules of distribution (Act 32/1966). In addition, the Presidential Decree 888 of 1967 laid down that all the public sector companies should deposit the 5 per cent profits allocated for social and housing services, and the 10 per cent profit designed for central social services in a special account at the Egyptian Central Bank (Presidential Decree 888/1967). Also, according to the same decree, any remaining of the employees' cash share was to be deposited in the Central Bank in another special deposit account for each general organisation and its affiliated companies (Ibid).

In the meantime, the National Economic Plan Committee (NEPC) developed the rules and regulations for calculating each employee's gross salary or wage, which were to form the basis for determining the value of his cash share of profits. The Committee stipulated the conditions for calculating the gross wages and salaries as follows: (NEPC's decision issued on 26 December 1965)

- A - Gross salary or wage is related to the position of the employee's job in the national Cadre or Job Evaluation Structure.
- B - In the case of employees working under a piece-rate wage system, an average of production bonuses and commission is to be included in the nominal earnings level.
- C - That absent days during the year except for annual leave, official holidays, sick leave and National Service responsibilities were to be deducted from annual earnings.
- D - That the penalties (if any) which the employee had earned throughout the fiscal year should also be deducted.
- E - That allowances for professional services or representation, "desert service" and other executive incentives should be excluded from the nominal salary level.
- F - All the aforesaid emoluments were to be included in the maximum limit for each employee (fE50).

The profits of the fiscal year 1965/66 were distributed according to the Prime Minister's Decree No 959/1967 issued on 7 March 1967 (Kamel, 1971). This stipulated the following:

- A - Profits: meaning all net profit before deducting retentions to company reserves.
- B - The total amount of employees' cash share in company profits for the fiscal year 1965/66 should be equal to that distributed in the previous fiscal year (1964/65). However,

the employees' cash proportion for the year (1965/66) could be increased or decreased in accordance with the following rules:

1. In the case of the company making profits exceeding those of 1964/65 by more than 10 per cent, the employees' cash share value will be increased by half of whatever should exceed the 10 per cent increase in profit with a maximum limit of 50 per cent increase of the previous year's employees' cash value.
2. In the case that the company has made profits less than 10 per cent of the previous years, the employees' cash proportion would be equal to the cash distribution value of the last fiscal year (1964/65).
3. If the company profit is less than the one made in the previous fiscal year (1964/65), the value of the cash distribution would be decreased in proportion to the rate of profit decrease - on condition that the cash profit distribution did not exceed 75 per cent of what was distributed in last fiscal year (1964/65).

C - Cases of the following companies were to be submitted to the National Economic Plan Committee (NEPC):

1. Companies which failed to make profits in the fiscal year 1965/66 for reasons beyond their control.
2. Companies which made profits for the first time in the fiscal year 1965/66.
3. Companies which had greatly increased their production and profits this year as a result of their growing investment, expansion and new constructions.

D - Companies were prohibited from paying their employees any kind of compensation whatsoever when they were not able to distribute profits or allowed only decreased cash profit shares when compared with the previous year.

E - Cash share distribution will be calculated according to the National Economic Plan Committee's decisions issued on 26 December 1965.

The terms of this first Prime Minister's Decree, which regulated the distribution of cash proportions for the fiscal year 1965/66, indicated the government's intentions in transferring authority for profit distribution from the general organisations to the Prime Minister. These were focussed on constraining the size of the employees' cash distribution to a level concomitant with economic stability. Supporting this deduction is the fact that the government put a maximum to each employee's cash share. Section C of the above terms supports this idea. Companies making profits for the first time in 1965/66 were to have their normative level of each distribution determined by the NEPC. In this way a modest precedent would be set for determining future distributions.

Another reason behind the compulsion placed on companies which achieved profits for the first time or companies which made a large profit to submit their accounts to the NEPC was the government's attempt to equalise the employees' cash share value in all public companies, at least within the same general organisation and its affiliated companies. For example, there was a particular need to equalise the employees' cash value between companies in the textile industry (Kamel, 1971). One might argue that the existence of maximum

level of employees' annual share (£E50) would make for overall equality. Actually, however, it happened and still happens in Egypt that in the same industry, say the textile industry, the differences between employees' cash share value can range between a maximum share of £E50 in one company and less than £E10 in another as a result of differences between the two companies' profits. While there were many reasons behind such differences in profits between two companies they could be the result of a difference in the size of the company operations or capital investment policy, or the type of technology employed in each. None of these factors were in the control of the majority of workers at either plants.

In the following year, the fiscal year 1966/67, the Prime Minister's Decree No 1117/1968 issued on 28 May 1968 (Prime Minister's Decree No 1117/1968) was in no way different from that of the previous year, except that companies making profits for the first time or running at a loss were to be referred to the National Economic Planning Committee, whereas in 1967 they were referred to the Ministerial Committee of Economic Affairs, the former was no longer in existence. In the fiscal year 1967/68 the Prime Minister's Decree No 40/1969 dated January 1969 stipulated the following: (Prime Minister's Decree 40/1969)

A - Profits: means net profits before deducting retentions and taxation.

B - The employees' cash share value will be equal to what was distributed in the fiscal year 1966/67 with the following adjustments:

1. If the company has made profits exceeding the fiscal year 1966/67 profit by more than 10 per cent, the cash share value will be increased by 50 per cent of what exceeded the mentioned 10 per cent with a maximum equal to 50 per cent of the cash value distribution for the last fiscal year (1966/67).
2. In cases where profits were more or less than the previous year by less than 10 per cent, the cash share value was to be equal to the previous last year's distribution value.
3. In cases of a decrease in the company's profits by more than 10 per cent, the cash distribution value was to be decreased in the same proportion. The Minister may however increase the cash distribution value up to what was distributed the previous year, but only in the case of the companies which made a loss for reasons outside of their control.
4. In the case of companies which made profits for the first time or the companies which greatly increased their profits as a result of expansion or new construction - the proportionate value of profit distribution was to be determined by the Minister responsible, on condition that it did not exceed the average proportionate value of employee profit shares in companies with the same activities and affiliated to the same general organisation.
5. The cash distribution value in each company - and under all circumstances - was to be within a limit of the 10 per cent designated for employees' cash proportion.

C - In the case of companies which ran at a loss as a result of reasons out of their control, it was up to the authorised Minister to agree to give their employees' compensation - on condition that this compensation did not exceed the minimum of what has been distributed to other companies with the same activities and which belonged to the same general organisation.

In this case, the distribution was to be made from the surplus of the employees' cash profit share in the Central Bank account, which was established by the fourth clause of Presidential Decree No 888/1967 which stipulated the deposit of the remainder of the employees' cash share after distribution in a special account in the Central Bank of Egypt.

D - The establishment of a special committee, which was to include the Minister responsible, the Minister of Treasury and the State Auditor's Deputy Manager, to submit recommendations to the Prime Minister in the following cases:

1. Companies which had losses due to reasons beyond their control.
2. Companies whose profits decreased by more than 60 per cent of the year before and for which the Minister responsible recommended an increase in their employee cash share value equal to the previous year's distribution value and for which the required distribution value was more than the 10 per cent specified for distribution

across all companies. This reference was only to apply where the extra sum needed (the difference between the 10 per cent cash distribution value for the previous year and what was suggested to be distributed to employees) as a compensation was to be paid from the surplus of the employees' cash share lodged in the Central Bank account.

E - It was possible for the Minister responsible to submit to the Committee (Item D) the cases which he considered as exceptions to the rules stipulated by this decree, on condition that subsequent actions would be authorised only by the Prime Minister's decree (decision) in each case separately.

F - Distribution was to be carried out according to the National Economic Planning Committee's decisions of 26 December 1965.

It can be observed from studying these latter conditions concerning the distribution of profit for 1967/68, that most clauses were the same as the Prime Minister's Decree of 1966/67. Notable differences between the two were as follows:

Firstly, in the case of companies which made profits of 10 per cent less than the previous year, the cash distribution value would be decreased in proportion. But, in this decree there was no maximum level set for cash distribution value to employees as there had been in the previous decree which put a maximum in cash distribution in this case of 75 per cent of the previous year's distribution value. Simultaneously, however, it was possible for the authorised Minister to increase the cash distribution value to that of the year before, on condition that

the companies' loss is out of their control.

Secondly, in the case of the companies making profits for the first time or achieving large-scale profits, it was to be submitted to the authorised Minister instead of to the Economic Committee. Also, it was possible for the Minister to agree to give compensation to employees in these companies on condition that it would not exceed the average employees' cash profit share in other companies in the same activity and affiliated to the same general organisation.

Thirdly, the decree discontinued Item D from the last Prime Minister's decree for last year. Instead of the previous prohibition on loss-making companies paying a compensatory award, it was to be now up to the authorised Minister to pay employees in companies making a loss (out of their control) on condition that the cash share value would not exceed the maximum distribution value in the company making the lowest profit distribution in the same activity, and affiliated to the same general organisation.

Fourthly, the Prime Minister's Decree added a new item in this year concerning companies making profits less than last year by up to 60 per cent. The Minister responsible could increase the cash share value for the employee in these companies to the same level as last years.

It is evident that the government was following a new profit-distribution policy. The Prime Minister could increase the value of employees' cash share. Previously it had been the government's desire to keep the value of this share down, and moreover it tried to set the

cash profit value for 1964 as a maximum rather than base. The reasons were to keep inflation down and to use the banked residues of the employee cash share as a financial source to achieve the National Economic Plan. So, what was the reason behind this change in government policy?

In fact, Egypt during 1967 had a War with Israel and lost the majority of its army as well as a considerable part of its investment in industries and other economic activities. For example, the occupation of Sinai led to the loss of investment in the oil and mining industries etc, as well as stopping the companies' operations in this part of the country. As a result many general organisations and companies (eg oil companies) lost their income from these branches and factories in the occupied region. Also, most of the companies in the Suez Canal Zone (Port Said, Suez, Ismailia) were forced by similar conditions to move to other regions like the Delta and Alexandria. This led to an increase in expenditure and a decrease in companies' income and profits.

Obviously, then, some general organisations and companies were doing very well and making a profit, while others were not able to do so. But the government found difficulty in stopping payment of employees' cash profits in the latter companies. In addition, this problem arose not only with one or two companies, in which case these might easily have been considered to represent exceptions to the rule and, subsequently, could have been dealt with by the authorised department or committee. Since, however, considerable number of companies experienced difficulties, the government was forced to increase the size of cash distribution value to employees in these companies for the fiscal year 1967/68. The Prime Minister's Decree authorised the Minister responsible to pay employees compensation in order to compensate them for their company's war-time losses.

In the following years the regulation of employees' cash share profit continued to be calculated and organised according to the last Prime Minister's Decree, and subsequent decreases followed the same pattern. In 1973, there was another War between Egypt and Israel, but this did not affect the previous circumstances and did not lead to a change in government policy. Political and social circumstances thereafter were not allowed to affect any changes in the rules of distribution, so, the same rules were followed until the distribution of companies' profits in the fiscal year 1976/77.

At the beginning of this year (1977) the Prime Minister issued a new Decree No 571/1977 to organise and regulate the distribution of companies' profits to employees, as follows (Ministry of Industry, 1978):

(1) Profits means all net profits prior to deducting all companies reserves, except companies' reserve for re-investment and its contribution to the Nasser Social Bank.

(2) The value of the cash share would be equal to that distributed in the previous year, and to increase or decrease the cash distribution in accordance with the following rules:

A - In the case of companies making profits equal to the previous year's profit or more or less than it by 10 per cent so that the distribution value would be taken to be equal to that of the previous year.

B - In the case of companies making profits of more than the preceding year by a rate of more than 10 per

cent, the distribution value could be increased by half of the increased value after the 10 per cent.

At the same time, it would be possible for the general assembly (meeting) to increase the distribution value by more than this limit with the same ratio of increasing profits.

C - In the case of a company making more than 10 per cent less profit than the preceding year, the distribution value would decrease by the same ratio of decreased profits. Also, it would be possible for the general assembly (meeting) to increase the value of distribution on condition that it would not be more than the previous year's distribution value and above the limit of 10 per cent designated for distribution, but only if the reasons behind the reduction of profit are beyond the company's control.

D - In the case of companies achieving profit for the first time, or making large scale profits as a result of increasing their investment and such like, the distribution value was to be decided by the Minister responsible, on condition that it did not exceed the average value distribution in other companies in the same activities.

E - In all cases the cash share value should be within the limit of the 10 per cent designated for that purpose.

In fact, this clause was altered a few days later to read:

The distribution value for the fiscal year 1975 will

be the basis for determining cash share value. In the meantime employees' cash share value will increase or decrease each following year at the same rate to bring it to the cash value distribution of 1975 (Prime Minister's Decree No 217/1978).

- (3) This clause gave authority to the Prime Minister, by request of the Minister responsible, to compensate employees in companies which had had a loss, or made less profit for reasons out of their control. This compensation was to be made from the surplus of employees' cash share held in the Central Bank for the same company, or all other companies in the same activities, or all public sector companies.
- (4) There was to be an increase in the maximum cash share for each employee from £E50 to £E75.

From a study of the latter decree it is clear that there are significant amendments:

- (A) The Prime Minister's decree fixed the distribution value of this year to that of 1975, reverting to the practice of 1964.
- (B) The decree increased the maximum of each employee's cash share value by 50 per cent.

It is clear that the government had returned to its policy of limiting the employees' cash share in profits. Nevertheless, there is an increase in each employee's maximum cash share each year by 50 per cent. This represents a concession to the rising demands of trade

unions and the representative institutions of management and professional employees. At the same time it was clear to the government that the increasing rate of inflation after the 1973 War made an increased cash share inevitable.

There had been no serious study from the beginning of the scheme to determine suitable limits for the distribution of profits. The government and the Economic Planning Council had therefore been acting throughout on the basis of pragmatic and short term criteria with little knowledge of how the scheme affected either the workings of the individual company or of the economy.

8.3 Discussion

The profit sharing scheme in Egypt has to be set against the operation of the national job evaluation scheme based on a cadre of wages and salaries. This structure forms the basis for overall remuneration in industry and in the service sector and, as has been discussed earlier, is the means by which a hierarchy of earnings is maintained by government decree. The existence of such a hierarchy in a Socialist country is evidently a matter surrounded by controversy. That this hierarchy stems from the decisions of the government itself is a necessary and uncomfortable prerequisite of central state control. In the case of profit sharing the controversy is in some ways even more convoluted and the bases of argument somewhat confused.

As was mentioned earlier (Chapter Five) in capitalist countries profit sharing has been utilised by managements attempting to gain a moral commitment to their control over employees in a private firm. It has been the governments' historical role to ensure that the individual

employee retained his rights to a remuneration determined by his individual effort, ie through the payment of a previously agreed wage or salary. In command economies by contrast the state has attempted to emphasize the identity of the employee with the higher entity contained in a national purpose or mission. Hence profit sharing tends to become related to national rather than plant or individually based achievement and to be affected by contingencies, such as war, which impinge on national economic performance.

In the socialistic economy the principles of profit sharing may create problems in that vast gaps in earnings may derive from differences in growth rates between different firms or different areas of the economy. Furthermore these differences may arise from the conscious allocation of resources by the government to areas of high productivity or sectors important to the long term growth of the economy. Profit in the latter case, eg steel, may be low, while short term "windfalls" to the former type of industries may be high. Again the price mechanism itself may be manipulated in a way that makes transfer values between the various sectors of the economy a matter of government design rather than hard work or entrepreneurial flair.

Both capitalistic and socialistic motives for introducing profit sharing tend however to be subsumed by the higher imperative of overcoming short term problems of inflation brought about by structural imbalances in the economy as a whole. Hence whatever incentive value may have been contained in the profit motive for the individual employees, is lost by the need for external constraints on any profits not directly related to increased production. This is especially so when profits are directed to investment in the infrastructure in a manner which cannot in any case be related to increased performance

by a localised achieving unit.

These conflicting criteria may be found to exist in the actions taken by the Egyptian Government over the past twenty years of profit sharing in that country. The main principles may be said to be the following:

1. Unifying the basis of distribution to all employees at the state level in order to establish a kind of equal opportunity for profit in calculating each employee's share whilst guaranteeing justice in distribution. But assuming a form of justice and equality through the application of standardised rules of distribution is impossible. Differences between companies' size of investment, original capital, kind of activities, level of technology, type of product market, the date of establishment, number of employees, cannot all be taken into account in unifying the rules of distribution. Over the past 20 years of applying profit sharing scheme it can be observed how big is the difference between employees' share value in various companies, even in the same activity. For example, the employees in the KIMA company in chemical industries has distributed three times the cash share value that has been given to employees in the Abo Za'abl company in the same industry (Ministry of Industry, 1969).
2. Binding the employees' cash share value, as a whole, to production value. But for example the law at present permits an increase in the distribution of profits if the profit has increased by more than 10 per cent of the previous year's and, also a decrease of distributed profits if the profit decreases

by more than 10 per cent of the previous year's. As a matter of fact, it is up to the Minister responsible to increase the size of distribution more than the suggested cash share value in a way which can be financed from a surplus of cash share value from the same company, or other companies in the same activity, or from all the public sector companies. Also, in the case of companies running at a loss it is up to the authorised Minister to pay employees compensation in those companies on condition that this loss is for reasons out of the companies' control. For example, in the case of essential commodities where the government determines the price of products less or equal to the production cost without allowing any value added.

3. The calculation of each employee's cash share is supposedly on the basis of his gross salary or wages. In this case it was excepted that employees on the higher level in the company's hierarchy would receive a big part of the profit pool (or profit distribution value) according to their salaries, as in the case of managers and directors. This principle was tempered with one of egalitarianism so that is why the law put a maximum for each employee's share and allowed the redistribution of the rest (if any) to employees with less than the maximum and on condition that both distributions would not exceed the maximum of £E75.
4. Yet, higher status employees feel that the value of their profit share is very low and most do not like the way the system works. Workers on the shopfloor with high wages relating their experience and length of service are also

dissatisfied (see next Chapter). The question which might arise from the application of this principle is, on what basis was the determination of that maximum which was originally £E50 and was raised recently to £E75? Actually, there was no serious study to determine the basis on which such a maximum should be fixed.

5. Although the government introduced employees' participation in management and in profit it was government policy from the beginning to control the employee share in profit and keep it to a normative level. It was reasoned that an increasing employees' share would lead to an increase in the rate of inflation in the country. In the meantime there was the problem of how to finance the First National Economic Plan. At that time the government found that the banked residues of the employees' cash share value could be used as a major source to finance its Economic Plan. It is clear that it is not only the surplus of cash share that financed the Economic Plan, but also the deferred employees' share in profits which was supposed to be paid to employees in the form of social services on the company level or investment in infrastructure at state level.
6. There has always been repetition in Prime Minister's decrees concerning the distribution of profits. It has been noticed in most cases that it is only a change of language. It was understood from the beginning that the government wanted to control the size of distribution value, but it is doubtful whether a new decree from the Prime Minister was the best

method. The constant rewording of regulations has led to the problem of understanding the rules of distribution each year in a way that has put more pressure on the accounts departments and works councils in companies. The delay in the distribution of profits has been caused by local processing hold-ups as well as by national debates. While this may have created pools of resources from which the government could draw in managing the economy, it has also eroded the credibility of the system and detracted from its original purpose of motivating the labour force to increased identity with the government's purposes.

7. The introduction of the scheme was accompanied from the beginning by employees' participation in management through representatives on the company's board. But there was and still is no real sharing in, or administration of profit sharing on the part of employees. There are many reasons behind the limitation of employees' role in applying the profit sharing scheme. One of the most important reasons is that all the rules of organising and administering the profit sharing are out of the company's hands and are applied by government agencies.

The above discussion was mainly on the development of the profit sharing scheme in Egypt at a macro level. The rest of this thesis will attempt to tap opinion at the micro or company level.

PART FOUR

THE SURVEY

CHAPTER NINE

The Attitude Survey

Introduction

From the previous discussion and literature survey of profit sharing throughout the world, one is able to make some hypotheses about its possible impact on employee opinion and attitudes in Egypt. Profit sharing, as a form of participation, was introduced in Western capitalist societies to motivate employees to become loyal to their employers and to the norms of their work place and, therefore, to increase their potential cooperation in achieving the main objectives of the organisation. It has been argued that by allowing employees to have a share of the profits they would be more committed and more loyal to their employers. Because of this they would become aware of the overall performance of the organisation within which they worked. This, in turn, would stimulate them to increase productivity. Unlike payment by results schemes based on piece, the employee's view of his or her performance is, therefore, based on an awareness of the company as an achieving unit rather than upon the individual maximisation of personal advantages. We might, therefore, expect to find a high awareness of company performance among employees in Egyptian organisations and, if the data is available, an increased awareness over the period of its operation.

However, the advocates of profit sharing counter-argue that there should be certain pre-conditions which have to be met before introducing profit sharing in any industrial organisation in order to reduce the risks and enhance its chances of success in achieving the main objectives of the innovators (see Chapter Five). Management's full

backing and support for the idea is a necessary pre-requisite before applying such schemes. Further, management-workers joint consultation committees are desirable for administration and distribution of profits and for any modification or adjustment to the scheme. These are needed in order to increase employees' trust and understanding of the scheme. In addition, the formula and structure of the system must be kept simple in order to facilitate its comprehension by junior and other employees remote from direct control over profits. Equally important is that the moral aspect of the scheme should be stressed and clarified particularly to lower level employees. That can only be achieved after paying employees a fair and competitive wage as, otherwise, they would see themselves as being exploited which would increase their feeling of alienation. If these conditions do not exist, a calculative involvement rather than normative one is likely to be encouraged by the scheme.

As the study has demonstrated, the idea of profit sharing has attracted leaders in a number of other developing countries, eg Yugoslavia, Colombia, Iraq, Syria, India and Egypt. In all these cases it is the political elite - rather than the organisation or management - who initiates such schemes in the belief that the application of such techniques could help in achieving industrialisation and economic development (see Part One). Therefore, in the majority of cases, the objectives behind the application are of a wider political and social nature rather than being purely economic. Indeed, the implementation of participative techniques and ideologies often has to satisfy a diverse range of socio-politico-economic objectives put forward by the ruling elite or the dominant party in the manner explained in Chapter Four. Thus, the scheme is usually introduced by the state instead of by the firm's management in a manner which makes overt the latter's lack of

control over the enterprise they are supposed to manage.

It is hardly surprising that managers have shown little enthusiasm either for formal systems of participation or for profit sharing schemes in the latter countries. By contrast it has been noticed (Chapter Five), that the application of profit sharing schemes in industrialised Western countries is in most cases a voluntary exercise except in some countries with a tendency to state intervention (eg France). Although the scheme is usually initiated by the management, its introduction is usually agreed by all parties concerned. Further, it operates at company level or on a more localised basis with a minimum state or government intervention. Yet, the degree of success of such schemes is still seen to be debatable.

In an early study of profit sharing at the Kalamazoo Company in the West Midlands (1976) the author found that both management and workers were comparatively happy and satisfied with its results. Important factors in the Kalamazoo scheme were the use of democratic management styles, the generation of a friendly atmosphere, as well as the workers' participation in the administration of profit distribution and investment. It appears, also, that the small size of the organisation was important. It is true that the small size would allow the work force to understand clearly the relationship between their share and company profit on the one hand, and their individual effort and the company performance on the other hand. A small size firm would also favour a more personal kind of relationship, which has been lost in large organisations (Child, 1981).

The surveys and researches quoted in the text create a clear picture of the pros and cons involved in the application of profit

sharing schemes for both employees, management and governments. We found that such schemes do not seem to bring about a complete similarity of interests between workers and management in the enterprise. Further, it has been noticed that the continued existence of a hierarchy and an overriding management control still exist even in Yugoslavia. Formal participation through the constitutional division of power in the enterprise, in practice, does not help much in democratization of organisation or improve the internal supervisory relationships.

However, in general terms, compulsory profit sharing and self-management have unified the ethnically various groups and values of the Yugoslav people as well as bringing different occupational groups together in the pursuit of local aims. These are mainly worked out at the enterprise level and in the local commune rather than at the higher levels of the political hierarchy. Further, the Yugoslav's scheme may be considered to have succeeded in achieving the broad objective of the leaders in terms of fast economic growth.

There are many factors which may have contributed to the success of Yugoslavia's experiment. From the beginning, the compulsory scheme combined with self-management were aimed at extending and strengthening the direct democracy of working people and to homogenising cultural and normative systems within fragmented ethnic groups. Therefore, decentralisation has been followed throughout all national socio-political and economic systems.

Nasser was very impressed by the Yugoslav system and with its leaders or designers. It is said by informed commentators that President Tito was Nasser's exemplar in the adoption of a compulsory profit sharing scheme in Egypt in 1961. Nonetheless, the implementation

of the scheme was quite different from that of the Yugoslav scheme and, in practice, merely represented an extension of the centralised bureaucratic administration by the Egyptian government and by its central planning bodies.

There are many historical factors which might explain the differences between the Yugoslav and Egyptian compulsory profit sharing schemes. One of the most important difference is the deeply rooted centralisation of the Egyptian institutions dating back to the time of the Pharaohs. All the administration through history has been in the hands of an elite and its attendant bureaucracy. The existence of this hierarchical has caused personnel prestige in the Egyptian society to become associated with employment in national service or public sector. Unlike workers in other Middle Eastern countries, Egyptians look for secure jobs with the government instead of establishing their own private businesses. Manual employment is sought in the government projects, such as irrigation work, while the educated people direct their attention towards the civil services.

Thus from the very beginning the centralised structure of Egyptian administration, the large size of employing units in the public sector, the impersonality and remoteness of management and the willingness of Egyptian employees to endure these conditions in return for the wider social esteem brought by public sector employment, all contributed to making the likely educational impact that profit sharing might have had on either management or labour somewhat dubious. For this reason the author anticipated that the attitudes of Egyptian workers and management would prove to be distinctly different from those shown in Western enterprises and even to those brought about by the decentralised modes of profit sharing adopted in Yugoslavia.

9.1 The make-up of the sample

Inside each company a disproportional stratified sample was taken from each major occupational group in the organisational hierarchy, ie directors and top management; professionals; clericals; foremen; workers and workers representatives (see Table 9.1). Within each group the interviews were chosen by reference to a random sampling table, as were substitutes when the original respondent was not available.

Directors and top management interviewed in our survey included the Chairman of each company, the chief executive and the executive directors to the company board, all of whom were appointed by Ministerial Decree. These respondents represented the top management in each industrial organisation and they were thought to be in a position to judge the whole issue of participation within their organisations.

Professionals in the sample represented people with specialised knowledge and expertise engaged in a wide range of staff and line activities. These included marketing, purchasing, research and development, personnel, accounting and sales. They were chosen on the basis of their graduate qualification for the job they were presently holding. There is an increasing number of such occupational groups, particularly after the elite's policy of extending free higher education to all citizens. Much has been written about these groups in Western countries, particularly about their tensions and conflicts with general management. In Egypt the growth in the employment of graduate managers at all levels of organisation makes their frustrations of a somewhat more extensive nature than those attributed to "professionals" in Western studies.

Table 9.1

Distribution of the sample according to the main types
of occupational groups in each selected firm

Selected Company	Directors	Professionals	Clericals	Foremen	Workers	Representatives	Total
ENLGWENWE	6	10	10	10	10	4	50
EKLSWT	6	10	10	10	10	4	50
EMLWENE	6	10	10	10	10	4	50
EHLSES	6	10	10	10	10	4	50
ECLDWES	6	10	10	10	10	4	50
ENLDWES	6	10	10	10	10	4	50
ENLZWES	6	10	10	10	10	4	50
EPEH	6	10	10	10	10	4	50
EPWESEK	6	10	10	10	10	4	50
ENLZWEP	6	10	10	10	10	4	50
ENLSEMESWL	6	10	10	10	10	4	50
ALALSEM	6	10	10	10	10	4	50
EMLMESEH	6	10	10	10	10	4	50
Total	78	130	130	130	130	52	650

In general their promotion ladders will be into general management and so their identification with the firm may be quite high. However, as Child (1982) points out, this may become increasingly true of most professionals working in bureaucracies in the West.

Clericals included in our sample comprised groups such as secretaries, typists, telephone operators and routine clerks. It has been argued that their work status has changed drastically and the probability of advancement or promotion out of their position has diminished as a result of the increased employment of graduates. Major changes have occurred concurrently in office technology and organisational forms. This, in turn, has had a drastic effect on the nature of office work where a distinct hierarchy of prestige, if not pay, once existed, standardization has minimized status differences.

Foremen have been included in the survey to represent the first line management responsibility in an industrial organisation. Increasing size of organisation, mechanization, specialisation, rationalization and, perhaps most importantly, the advent of unionization have all combined to alter drastically the content of the foreman's role and his or her relationships with other managers. Such factors may affect the level of satisfaction, involvement and skills required in the workplace.

The sample of line operatives included a variety of skill levels but were mainly engaged in simple machine-minding or sub-assembly work that would be classified as semi-skilled in Britain.

Workers representatives were from similar skill groups and were elected to the Board to represent employees in strategic decisions.

They might be able to give a better assessment of the degree to which participation worked in the actual process of managerial decision making.

The sample profile regarding age, sex, education and occupation are shown in Tables 9.2 and 9.3. Generally, the sample is characterised in the following ways:

- (1) The age group nearly follows a normal distribution curve in that 57 per cent were between the ages of 30 to 50 years of age.
- (2) Forty-four per cent of the sample was illiterate and had less than a secondary education.
- (3) Women represented 15 per cent of the whole sample.

9.2 The Survey of Employee Satisfactions

It is part of the ideology of the industrialising elite in developing command economies, such as Egypt, that the social contract prevailing between the state, on the one hand, and the employees on the other, replaces individual contracts. Participation in management and in profit sharing is seen as typifying and reinforcing this wider relationship between the state and the citizen. It is assumed that the employees will be more satisfied with their jobs and with the structure of command within the workplace. In classical Marxian terms the symptoms of alienation, which characterises Western industrialised countries where the private contracts of employment dominate, are to be counteracted by the collective sharing of profits. If this the elite has been successful.

Table 9.2

The distribution of the employees in the sample according to their sex, education and occupation

	Male						Female						Grand Total												
	Higher Education		Secondary Education		Prep., Prim., Illiteracy		Sub-Total		Higher Education		Secondary Education		Prep., Prim., Illiteracy		Sub-Total		Higher Education		Secondary Education		Prep., Prim., Illiteracy		Grand Total		
	%		%		%		%		%		%		%		%		%		%		%		%		
Directors	78	100	-	-	-	-	78	100	-	-	-	-	-	-	-	-	78	100	-	-	-	-	-	-	78
Professionals	100	100	-	-	-	-	100	77	30	100	-	-	-	-	30	23	130	100	-	-	-	-	-	-	130
Clericals	-	-	42	48	45	52	87	67	-	-	36	84	7	16	43	33	-	-	78	60	52	40	-	-	130
Foremen	-	-	36	28	92	72	128	98	-	-	-	-	2	100	2	2	-	-	36	28	94	72	-	-	130
Workers	-	-	14	13	91	87	105	81	-	-	6	24	19	76	25	19	-	-	20	15	110	85	-	-	130
Workers' Representatives	-	-	24	45	23	54	52	100	-	-	-	-	-	-	-	-	-	-	24	46	28	54	-	-	52
Total	178	32	116	21	256	47	550	85	30	30	42	42	28	28	100	15	208	32	158	24	284	44	-	-	650

Table 9.3

The distribution of employees in the sample according to their sex, age and occupation

	Male						Female						Grand Total										
	Less than 30 years		30-50 years		Over 50 years		Less than 30 years		30-50 years		Over 50 years		Less than 30 years		30-50 years		Over 50 years						
	%		%		%		%		%		%		%		%		%						
Directors	-	-	33	42	45	58	78	100	-	-	-	-	-	-	33	42	45	58	78				
Professionals	19	19	67	67	14	14	100	77	12	40	17	57	1	3	30	23	31	24	84	65	15	11	130
Clericals	25	29	51	59	11	12	87	67	28	65	15	35	-	-	43	33	53	41	66	51	11	8	130
Foremen	10	8	78	61	40	31	128	98	-	-	2	100	-	-	2	2	10	8	80	61	40	31	130
Workers	10	10	63	60	32	30	105	81	14	56	11	44	-	-	25	19	24	18	74	57	32	25	130
Workers' Representatives	2	4	33	63	17	33	52	100	-	-	-	-	-	-	-	-	2	4	33	63	17	33	52
Total	66	12	325	59	159	29	550	85	54	54	45	45	1	1	100	15	120	18	370	57	160	25	650

Job Satisfaction

Employees' satisfaction and involvement might be expected to be more than their Western counterparts particularly after twenty years of experience of participation in such schemes. Indeed, the universal application of such schemes in command economies should have a more positive learning effect than in capitalist economies of longer duration, where such schemes are applied on a piecemeal and localised basis and often in conjunction with other reward systems and forms of control that contradict and erode the participatory ethos of profit sharing.

It is certainly believed by the Egyptian political elite, that whatever differences might be found between individual personality characteristics and between organisational structures, the effect of employee participation will provide a basis for employee satisfaction at all levels of organisational hierarchy. However, one might expect that, as in other Western research findings (eg Porter, 1961; Kornhauser, 1965; Tannenbaum et al, 1974), those who are at the top of the hierarchy will be more satisfied with their work and the influence they exercise than other employees at lower levels. Previous international comparisons which have included Yugoslavia show this phenomenon to be universal. "All countries show the predicted hierarchical tendency, members near the top feel more satisfied with their jobs than those near the bottom" (Tannenbaum et al, 1974, p 131). Significant differences in job satisfaction have also been found to exist between employees within professional qualifications occupying specialised roles in organisations and those with little or very specific qualifications. In this respect differences appear between the satisfaction which professionals derive from their tasks and that gained from their status and their extrinsic rewards. The first generally gives professionals working in bureaucracies considerable satisfaction, while the latter produces a great deal of frustration (Shepard, 1956; Meltzer & Salter,

1962; Kornhauser, 1965). In Egyptian society these frustrations might be expected to be greater insofar as the pervasiveness of centralised authority might be expected to restrict the autonomy of professionals in more aspects of their work. Furthermore, such restrictions will be more overt and more politically oriented than in a free market situation.

Respondents in the attitudinal survey generally reacted favourably to their work (Table 9.4), though differences between different levels of the hierarchy were statistically significant ($X^2 = 25.51 > X_{(0.01)}^2 = 23.21$ with 10 degrees of freedom).

Table 9.4

Do you consider your job favourably or unfavourably?

Aspect \ Group	Directors %	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %
Favourably	97	87	85	84	81	92	83
Unfavourably	2	3	6	9	14	2	11
Don't know	1	10	9	7	5	6	6
Total	100 (n=78)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=52)	100 (N=650)

$X^2 = 25.51 > X_{(0.01)}^2 = 23.21$ with 10 degrees of freedom

From Table 9.5 it can be seen that the occupational groups which achieved most satisfaction through their work were senior management and professionals. Workers' representatives gained more intrinsic satisfaction from their jobs than clerks, foremen or other shopfloor workers. By contrast, the groups most calculative in their approach to their jobs were shopfloor people, with foremen and staff being also highly motivated by money. These differences were statistically significant at 0.001 level of the sample. In this respect, Egyptian responses seem not to be different from the Western societies insofar as hierarchy and occupational position have an effect on sources of employee satisfaction. People at the higher levels of organisation are concerned with intrinsic kinds of rewards, as discovered in many attitude surveys in the West (eg Morse & Weiss, 1955; Friedmann & Havinghurst, 1954; Weiss & Kahn, 1960; Goldthorpe et al, 1968).

"Blue-collar workers attach priority to deficiency needs such as pay, job security, and inter-personal relations. Supervisors show fairly similar priorities but attach more importance to growth factors such as the opportunity for achievement. Finally, managers are primarily concerned with growth factors" (Guest & Fatchett, 1974, p 100).

Morse & Weiss also found that those in middle class occupations valued the content and purpose of their work and the scope it gave them for self-fulfillment and the use of their skills. Those in working class occupations regarded work more as something to do in order to gain remuneration and as a means of passing the time and using their physical energy (Morse & Weiss, 1955).

However, deeper exploration of employee feelings found over half of shopfloor (52 per cent) were against the idea of letting their children do the same job as they were doing, while only a minority of 9 per cent

Table 9.5

Which one of these two statements is more true to your needs?

Aspect \ Group	Directors%	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %
A great deal of satisfaction in people's lives comes from the job they do. No matter how much money you get, if the job itself is not a satisfying experience you remain discontented.	88	75	45	43	15	50	30
Not sure	6	8	8	9	10	8	10
People work so they can have a satisfying life away from work. No matter what the work is if the money is right, you won't worry.	6	17	47	48	75	42	60
Total	100 (n=78)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=52)	100 (N=650)

$\chi^2 = 153.59 > \chi_{(0.001)}^2 = 29.59$ with 10 degrees of freedom.

of top management were against this idea. Differences in groups attitude to this aspect was also found to be statistically significant ($\chi^2 = 100.02 > \chi_{(0.01)}^2 = 30.58$ with 15 degrees of freedom). One worker explained his view: "How can I advise my child to do the same job ... standing all day on his feet without rest in this hot weather?... it is ridiculous ..." said one of the shop floor workers in the glass factory

at Shobra El-Khima.

As far as workers' representatives are concerned, they showed more positive attitudes towards their job than their colleagues at the lower levels of the hierarchy. Ninety-two per cent of them saw their job in a favourable light. Workers' representatives responded more favourably than their immediate supervisors. It might be expected that this group would have a more positive attitude to their environment, since they are involved in the participatory system in a much more direct way than non-members. It was also a finding of Tannenbaum et al in their survey of participatory systems in the West and East (Tannenbaum et al, 1974).

It is clear from an inspection of Table 9.6 that opportunities and rewards for the majority of the shopfloor sample were regarded as low, particularly in relation to the so-called hygiene factors of Herzberg (McGregor, 1960). This is most noticeably the situation regarding pay; working conditions and security of employment and their opinion of their employer. Motivator factors were given emphasis in descriptions of their job over hygiene ones (opportunities for upgrading and promotion being a marked exception). But from comments in interviews it was clear that task related rewards did not have the same priority with shopfloor workers as their hunger for money and their immediate material needs. This was also a finding of Obradovic (1970) in his survey in Yugoslavia. Yet workers on the shopfloor are always the group which most feels extrinsic rewards to be variable and/or unclear.

Table 9.6

To what extent does your job offer you the following rewards and opportunities? To what extent ought your job to offer these rewards?

very little little not sure much very much
: : : : :

Job Rewards / Groups	Directors %*	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %	χ^2
1. Security of employment	79(100)**	52(100)	57(100)	55(100)	44(100)	59(100)	49(100)	41.66 > χ^2 with 10df (0.001) ² = 29.59
2. Good working conditions	73(85)	54(96)	53(100)	43(95)	46(100)	45(100)	48(92)	28.43 > χ^2 with 10df (0.01) ² = 23.21
3. Good pay	52(100)	42(100)	45(100)	42(100)	31(100)	40(100)	34(100)	20.22 > χ^2 with 10df (0.05) ² = 18.30
4. A feeling of working for a good employer	70(90)	57(88)	54(78)	44(75)	38(79)	61(80)	44(80)	98.17 > χ^2 with 10df (0.001) ² = 29.59
5. Warm, friendly relationships at work	85(80)	71(92)	72(90)	62(97)	52(100)	73(100)	68(97)	52.43 > χ^2 with 10df (0.001) ² = 29.59
6. Recognition of personal service to the firm	83(92)	63(89)	63(76)	55(85)	39(80)	64(89)	48(80)	65.49 > χ^2 with 10df (0.001) ² = 29.59
7. Opportunities for upgrading or promotion	75(92)	52(100)	42(100)	41(94)	30(100)	95(89)	37(100)	58.18 > χ^2 with 10df (0.001) ² = 29.59
8. Recognition of my training or qualifications	84(90)	75(92)	63(90)	48(67)	54(79)	64(85)	45(82)	59.10 > χ^2 with 10df (0.001) ² = 29.59
9. Opportunities to learn new things in the trade using my training	80(84)	71(89)	60(86)	50(70)	48(78)	59(70)	53(81)	41.55 > χ^2 with 10df (0.001) ² = 29.59
10. A feeling of control over my work	89(95)	75(86)	63(78)	61(78)	43(80)	65(82)	53(81)	72.97 > χ^2 with 10df (0.001) ² = 29.59
11. Convenient hours so that I can follow my out of work interests	81(82)	61(95)	50(100)	54(87)	50(98)	62(90)	52(81)	37.73 > χ^2 with 10df (0.001) ² = 29.59
12. Opportunities to develop my abilities	78(84)	69(96)	60(100)	56(95)	42(100)	61(80)	50(100)	52.61 > χ^2 with 10df (0.001) ² = 29.59
13. A chance to call on someone else any time things go wrong	92(67)	72(70)	63(80)	55(90)	37(80)	74(77)	48(81)	82.15 > χ^2 with 10df (0.001) ² = 29.59

* Percentage replying much or very much satisfaction
** The number in brackets refers to the rewards and opportunities that ought to be offered.

Grand total = 650; Directors 78; Professionals 130; Clericals 130; Foremen 130; Workers 130; Workers' Representatives 52.

In terms of the difference between rewards and opportunities offered and those desired, the highest proportion of frustration focussed on pay (66 per cent) and actual satisfaction was lowest overall; second was opportunities for promotion (63 per cent), but here differences between organisational levels were most marked; and third security of employment (51 per cent), particularly in shopfloor case (see Figure 9.1). Moreover, the gap between actual rewards (as employees felt them now) and their desire for what they wished them to be, was very wide, particularly for employees at the lower levels of the hierarchy. This, again, may seem to be another indication of the importance of the occupational hierarchy in shaping employees' attitudes (Table 9.6). Similar findings are reported by Zupanov and Tannenbaum (1968) and Kavcic et al (1971).

For the most part, employees saw their careers as being based on the firm and, more widely, in the public sector (Table 9.7). Paradoxically, this was truer of professionals than any other group. In the Egyptian context most young graduates see their long-run career as being located within the public sector. As described earlier, while many spend time earning their "dowry" in other Arab states upon their return they take up professional positions in public sector employment. This dependency on their employer is shared by other staff groups, though not by shop floor workers. For these employees the new "Open Door" economic policy had raised expectations, particularly among the skilled artisans in the survey, of expanded opportunity for self-employment. Whether these were realistic is to be doubted. Rather like the automobile workers in studies carried out by Western sociologists (eg Blauner, 1973), Egyptian shopfloor operatives may be simply fantasising about self-employment as a means of gaining personal autonomy. By contrast, professionals in Egypt

percentage

Actual as they get it now
Ought to be offered

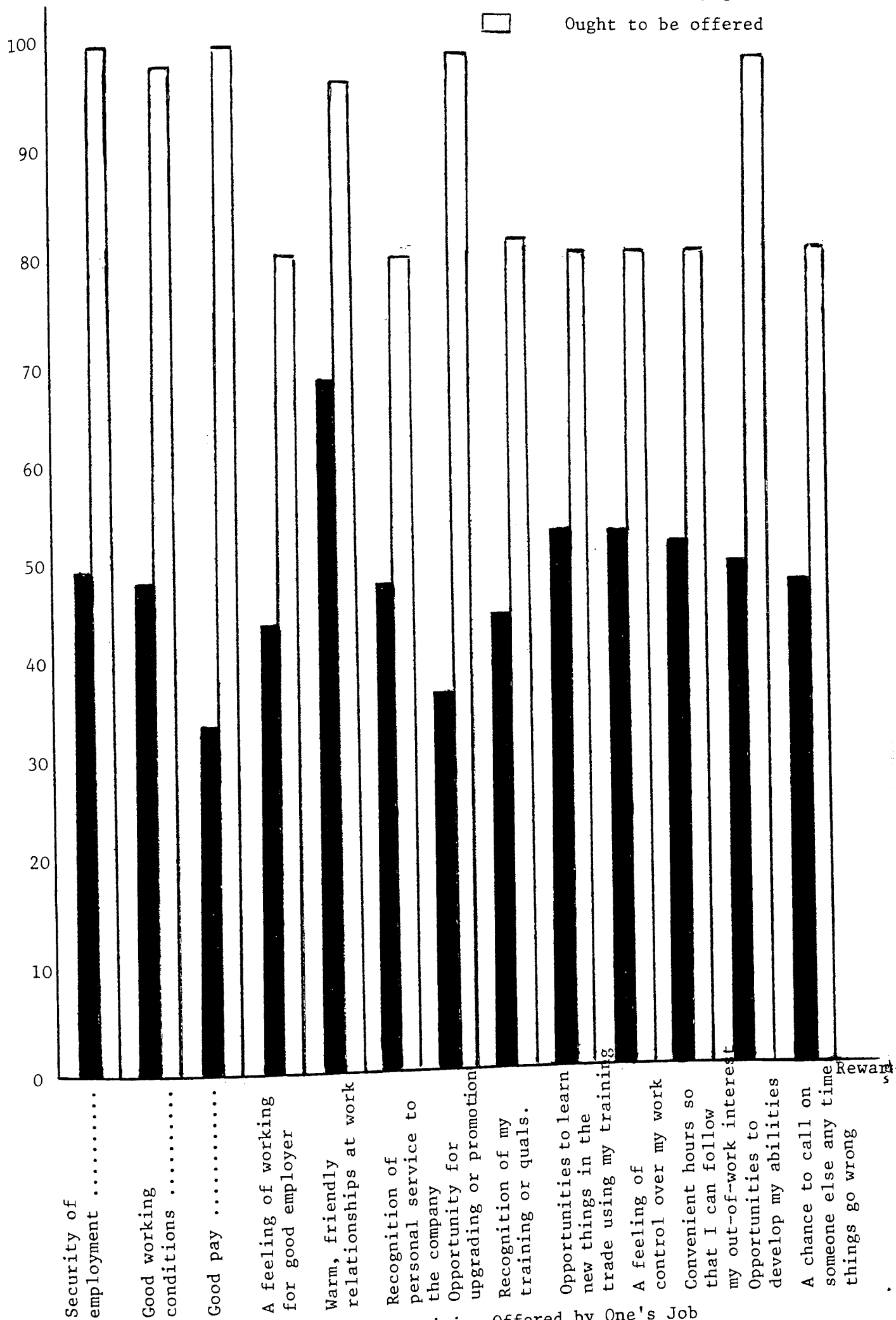


Figure 9.1 Rewards and Opportunities Offered by One's Job (Percentage replying "much" or "very much" satisfaction)

appear to be far better adjusted to the constraints placed upon their freedom by bureaucratic regulation than are their Western counterparts (Hall, 1975). These modified aspirations can be traced to both the objective limits of available job opportunities and the effects of upbringing. Middle class parents usually want their children to continue their education until graduation from universities to get their chance to enter white-collar jobs in the public sector (El-Nihkeley, 1966). More recently, Bassiouni (1979) found out from his survey in Egypt that those in "inferior" occupations considered education as the sole means for children to be employed in higher paid occupations in the public sector.

Table 9.7

Kind of job one will be doing for next five years

Aspect Group	Directors %	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total
Same job at this company	20	11	17	10	18	19	17
Similar job at another company	5	4	3	1	1	-	2
More senior job at this company	54	72	59	71	35	65	48
More senior job at another company	15	8	9	13	9	10	8
Own business/ different job	6	5	12	5	37	6	25
Total	100 (n=78)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=52)	100 (N=650)

$$X^2 = 105.24 > X_{0.001}^2 = 45.32 \text{ with 20 degrees of freedom.}$$

A range of factors, such as gender and education, proved to have some effect on job satisfaction. Women and the least educated were less satisfied than more educated male respondents (Gender: $X^2 = 6.11 > X_{(0.05)}^2 = 5.99$ with 2 degrees of freedom; Education: $X^2 = 23.64 > X_{(0.01)}^2 = 13.28$ with 4 degrees of freedom). Increasing age also brought increasing satisfaction ($X^2 = 9.73 > X_{(0.05)}^2 = 9.49$ with 4 degrees of freedom). In all cases, however, the greater statistical significance of hierarchical ordering provided the more likely explanation of the respondents' attitudes, that is to say, that satisfaction increases as one moves from junior to senior categories of respondents. The importance of seniority to promotion in the organisational hierarchy is one explanation for the satisfaction of many older shopfloor workers, but for others it appears to denote an acceptance of their lack of status and career (Saleh and Otis, 1964; Wild, 1970). Women, on the other hand, were more likely to feel dissatisfaction, particularly in relation to pay, promotion and personal recognition ($X^2 = 14.14 > X_{(0.001)}^2 = 9.21$ with 2 degrees of freedom), but again their over representation in junior jobs' explains their frustration: 43 per cent of women respondents held clerical jobs and 27 per cent were on the shopfloor.

The more education a male employee had, the more likely he was to seek high job satisfaction of an intrinsic kind ($X^2 = 169.00 > X_{(0.001)}^2 = 18.47$ with 10 degrees of freedom) - and receive it! In large measure this was because, as described earlier, entrance to high rewards in Egyptian society is deliberately and formally geared to the attainment of educational qualification. Thus, while in the West the equation between salary level and span of responsibility is mediated by the workings of the 'hidden hand' of the market (Reiss,

1961), in a command economy the existence of a national job evaluation scheme ensures that this is, at least formally, so.

A final paradox was discovered in the effect of organisational size on feelings towards rewards and opportunities. Far from large size having a negative effect on employee satisfaction, employees were, in fact, more likely to be satisfied at all levels of a large organisation than people in smaller organisations. Again, one must refer to the relative ability of such companies to act as effective pressure groups within the national system by which resources are allocated. Consequently, they are able to reward their employees relatively better than those in small companies, irrespective of economic performance. Since most large companies in the sample were in fact among the most profitable it was not surprising that high employee satisfaction in regard to security, personal recognition, opportunities to learn and feelings of personal control in the work situation all coincided with both profitability and size of company. Furthermore, in addition to extrinsic rewards, the psychic reward of the prestige of working for large, nationally owned companies is such that even professionals describe themselves by reference to the name of their employer (Bassiouni, 1979).

Demand for Participation

It is apparent that the Egyptian employees in the industrial public sector feel they have considerably less involvement in management decision making than respondents in other studies in the West. This is all the more remarkable, because Western studies cover a variety of organisations, some of which make no claim to having participation schemes (Holter, 1965; Ramsay, 1976). By contrast, Table 9.8 shows management to feel that they personally have enough involvement already, but here again the effect of the organisational

Table 9.8

Degree of participation desired

(For the individual and representatives)

Aspect \ Group	Directors %	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %
I have (him or her) enough say	92(78)*	26(35)	26(25)	21(14)	8(22)	70(N/A)**	15(23)
I would like (him or her) more say in decisions concerning my own job	3(2)	21(16)	18(17)	21(27)	30(25)	14(N/A)	26(23)
I would like (him or her) more say in decisions concerning my own department	4(8)	41(22)	39(21)	41(32)	56(35)	6(N/A)	49(31)
I would like (him or her) more say in the running of the whole establishment	1(12)	12(27)	17(37)	17(27)	6(18)	10(N/A)	10(23)
Total	100 (n=78)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=52)	100*** (N=650)

* The numbers between brackets refer to the degree of participation desired for the representatives

** Not applicable to this group because they were the representatives.

*** Grand total - in the case of representatives only 598 respondents.
 For the Individual $X^2 = 230.93 > X_{(0.001)}^2 = 37.70$ with 15 degrees of freedom.
 For the Representatives $X^2 = 126.77 > X_{(0.001)}^2 = 32.91$ with 12 degrees of freedom.

hierarchy has been repeated ($\chi^2 = 230.93 > \chi_{(0.001)}^2 = 37.70$ with 15 degrees of freedom). The effects of hierarchy in Egypt repeats the findings of many other studies in Western and Eastern Europe (eg Kavcic et al, 1971; Tannenbaum et al, 1974; Kamel, 1976).

One of the significant results is the feeling of powerlessness among the professionals in the Egyptian public sector. A feeling that reflects the results of many Western studies, is often seen to stem from their advisory or staff roles vis-à-vis line management (Schneider, 1969). Their frustration contrasts with the feeling of involvement that appear to be held by workers' representatives on the company board (70 per cent).

In other important respects, the feelings of Egyptian employees also coincided with those of workers in both Yugoslavia and Western capitalist firms. The more senior the informants in the organisational hierarchy were, the more satisfied they were with their "say" in the firm (Tannenbaum, 1974; Guest & Fatchett, 1974; Wall & Lischeron, 1977 and IDE, 1981). The majority of shopfloor workers and the largest proportion of groups other than directors were most concerned with control over their department rather than their firm or even their job. In this latter respect women ($\chi^2 = 23.04 > \chi_{(0.001)}^2 = 16.27$ with 3 degrees of freedom) and other junior workers ($\chi^2 = 89.23 > \chi_{(0.001)}^2 = 22.46$ with 6 degrees of freedom) were especially conspicuous. In a recent British survey, Loveridge et al (1981) traced this concern to the information blockage seen by operatives to occur at line management level. It is also at departmental level that the pace and emphasis in work flow is determined.

Without some influence at this level the shop or office floor employee has little power of prediction over his or her job - and it is at the task level that employees in the Egyptian survey appeared to exercise most influence. It is perhaps for this reason that women are most likely to seek influence at the departmental level (Table 9.9).

Table 9.9

Degree of participation desired

(Employees' responses classified according to sex)

Aspect	Sex Group	Male %	Female %
I have enough say		31	23
I would like more say in decisions concerning my own job		36	20
I would like more say in decisions concerning my own department		22	42
I would like more say in the running of the whole company		11	15
Total		100 (n=550)	100 (n=100)

$X^2 = 23.04 > X_{(0.001)}^2 = 16.27$ with 3 degrees of freedom.

The routinisation of their clerical and assembly line tasks leads them to seek means to shape the departmental system in which the focus of control is overt and identifiable in the person of the (generally autocratic) supervisor. This hypothesis is sustained by the fact that over half of the employees with secondary education or less wished for more involvement at departmental level, in contrast with the majority of graduates, who considered that they had enough say already ($X^2 = 123.98 > X_{(0.001)}^2 = 22.46$ with 6 degrees of freedom). The shopfloor workers'

view of strategic involvement was expressed in this extract from one interview:

"... I can not accept this responsibility ... and nobody from my mates can ... and if he said that he can, I can not trust him ... leave managers to do their work ..."

With regards to the size of the organisation and its effect on employees' participation and involvement, it has been argued that increased size of organisation will reduce employees' participation as a result of extended lines of communication. Taken together with rigid administrative and work procedures and with the prevalence of impersonal relationships between workers and managers, size seems to increase employee alienation. In contrast, small size has been seen as offering more scope of participation and involvement (eg Walker, 1972; Blauner, 1973; Child, 1981). Our results do not, however, support these hypotheses. Table 9.10 shows employees' responses about degree of participation desired by the sample and their feeling of involvement classified according to size.

Table 9.10

Degree of participation desired

(Employees' responses classified according to the size of organisation)

Aspect \ Size	Less than 500 Employees %	500-1000 Employees %	Over 1000 Employees %
I have enough say	29	40	33
I would like more say in decisions concerning my own job	21	10	19
I would like more say in decisions concerning my own dept.	40	37	36
I would like more say in the running of the whole company	10	13	12
Total	100 (n=200)	100 (n=250)	100 (n=200)

$X^2 = 15.07 > X_{(0.05)}^2 = 12.60$ with 6 degrees of freedom.

With regards to identification of the representatives, nearly half of the sample (49 per cent) was not able to identify any one from their four representatives, while 28 per cent was only able to identify one of them. Only 3 per cent of the sample identified all four representatives and these were nearly all management (97 per cent) with a very limited number of the foremen and no workers ($\chi^2 = 445.38 > \chi^2_{(0.001)} = 39.25$ with 16 degrees of freedom). It is obvious that senior management and executives know representatives from interaction with them on the Board. Twenty-three per cent of the foremen were actually former representatives themselves. Our results, at any rate, confirm the earlier findings of a survey carried out by the American University in Cairo under supervision of Dr El-Sayed. He found that 61.8 per cent of the shopfloor workers were not able to remember any one of their representatives (El-Sayed, 1977). These results may be taken as a measure of unawareness of the representative system and representatives or may be - as El-Sayed (1977) pointed out as an indication of a negative pattern of responses towards the application of such scheme.

It is clear that workers' representatives do not carry the confidence of most employees in relation to the influence they exercise over the careers and working conditions offered to their members. Management were the most likely group to feel that representatives had high or very high influence. They may, of course, say this in order to hide the fact that they are preventing the representatives from participating in full decision making. They do not like to be called capitalists and prefer to present their role as appropriate to the ruling elite's ideology. The Chairman of one of the leading companies stated in an interview with the author:

"This experiment has done more harm than good ... it has divided the company Board into two groups: appointed managers and elected representatives ... Moreover, at the beginning we

spent a long time with the other group (representatives) trying to explain everything to them ... but in the end there was no understanding on their part and some of them like arguing and arguing and showing off ... It is better to re-evaluate the whole system ... but it is the policy of the Government and we had to cope with it even if it is at our own expense ...".

This agreed with the early findings of El-Sayed (1976). The results of his study revealed that the majority of management were apathetic regarding the whole concept of workers' participation at the strategic level of company

"The net result was the condemnation of the entire concept of worker participation in management by the management officials" (El-Sayed, 1976, p 35)

The overwhelming majority of management in this latter study evaluated the whole exercise as a failure and believed that no real improvements in the decision making process had been achieved. On the contrary, they saw the implementation of workers' participation in management as having created or added more problems to their role. In their opinion the main problems generated by the scheme were as follows:

1. There was a lack of technical as well as administrative ability among most of the elected representatives.
2. The elected representatives devoted their entire attention to the problems and rights of the workers.
3. No attention was paid by the representatives to wider problems of the enterprise.
4. The elected representatives broke the confidence of the Board meetings and passed on confidential information to their constituents particularly when it is related to the employees.

5. The elected representatives sided with each other on every decision without taking the firm's interest into consideration.
6. The elected representatives have impaired the line of authority by their arrogant attitude with their bosses at the place of suit.

In addition, 32 per cent declared that workers had not benefited from its application. Some of the managers described the elected representatives as a "conflicting group" and thought that the main objective of the system was to place government spies on the Board (El-Sayed, 1976).

Regarding the influence of the representatives while on the Board, the majority evaluated this as either very limited or even small. These results confirm the early findings in Egypt (El-Sayed, 1977). Further afield it agreed with the main findings of other researches in Yugoslavia (eg Zapanov & Tannenbaum, 1968; Rus, 1970; Kavcic et al, 1971; Watchell, 1973; Tannenbaum et al's survey in 1974).

The representatives themselves expressed frustration in interviews with the author. Much of this feeling stemmed from the process of decision making on the board. The sources of their frustration were similar to those expressed in a survey carried out five years after the inception of the participative scheme in Egypt. This survey covered 333 representatives and it revealed a widespread dissatisfaction among representatives for the following reasons (Fahmy, 1966):

1. The uncooperative attitudes from other members of the Board (appointed members);
2. They felt that managers liked to cheat them and did not give them enough time or information about issues which were to be discussed in the Board meeting;

3. Most of the decisions had been made outside the company and in collaboration with higher authorities (Minister, Prime Minister);
4. Their followers and employees who had elected them as representatives, always expected them to solve their own individual problems rather than the general problems of the group or companies. If they did not solve their personal grievances, they were always blamed and considered to be unsuccessful and unhelpful;
5. The nature and format of the reports and financial information were usually difficult to understand.

One of the most utilised techniques in the study of participation is that of Tannenbaum's "control graphs". In the following tables and graphs we illustrate the degree of influence that each group felt themselves to hold within the organisation and compare these with those used in other studies. What is remarkable about these results is their similarity across countries, regimes and industrial divisions (technology etc). One may question whether the control graphs measure what Tannenbaum suggests is actual control. One can express the view, as critics have, that, like job satisfaction, "having enough say" is no more than a socialised acceptance of the work situation as it exists. However, this is the way in which these measures are used here, that is, to measure perceived influence. It can be argued that this approach is more valid on a longitudinal basis, that is, in showing changes in perceptions within the same workplace, rather than on a cross-sectional basis. We would agree that this usage is a more discerning one, but insofar as our study confirms the importance of hierarchy in shaping perception, it adds to the body of cross-sectional data, which reaffirms this association across a number of cultural settings.

Table 9.11

The Distribution of Influence in the Egyptian Industrial Public Sector
(as perceived by all respondents)

Level	Perceived Influence*
Top management	4.0
Professionals	2.5
Clericals	1.6
Foremen	2.0
Workers	1.4
Workers' representatives	2.3

*
Scale from 1-5 (1=very little, 5=very much).

Table 9.12

The Distribution of Influence in Twelve Countries according to IDE Study

Level	Country											
	Belgium	Denmark	Finland	France	Germany (West)	UK	Italy	Israel	Holland	Norway	Sweden	Yugoslavia
Workers	1.8	2.0	1.7	2.0	1.9	2.1	1.7	1.7	2.1	1.8	1.8	2.7
Foremen	2.5	3.7	2.6	2.5	2.5	2.4	2.5	2.4	2.7	2.6	2.6	3.1
Middle managers	2.8	3.7	3.5	3.1	3.5	3.0	2.6	2.9	3.5	3.2	2.8	3.2

Source: IDE, 1981, p 192.

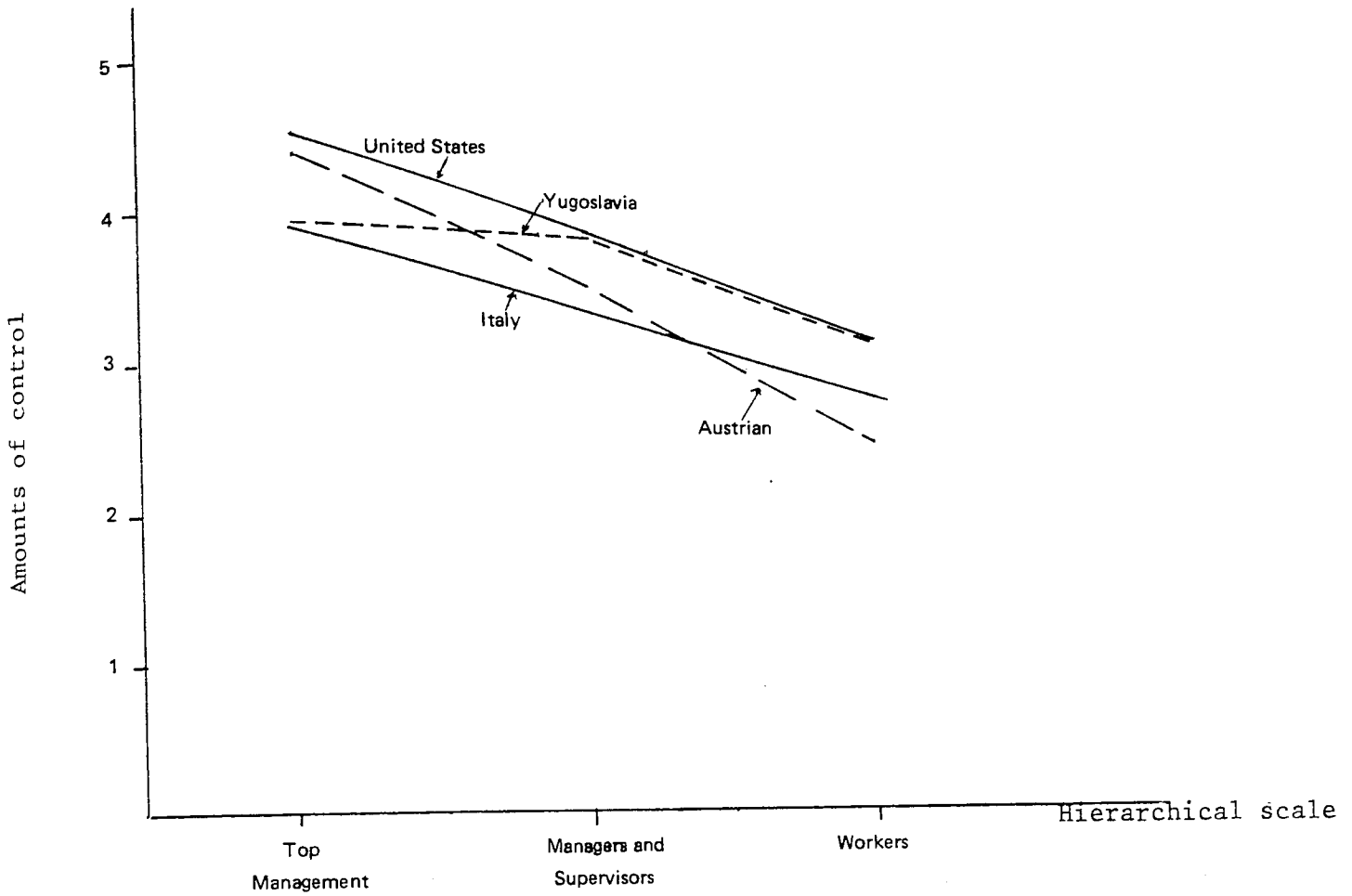


Figure 9.2 - Control Distribution (Yugoslavia, USA, Italy, Austria)

Source: Tannenbaum et al, 1974, p 59

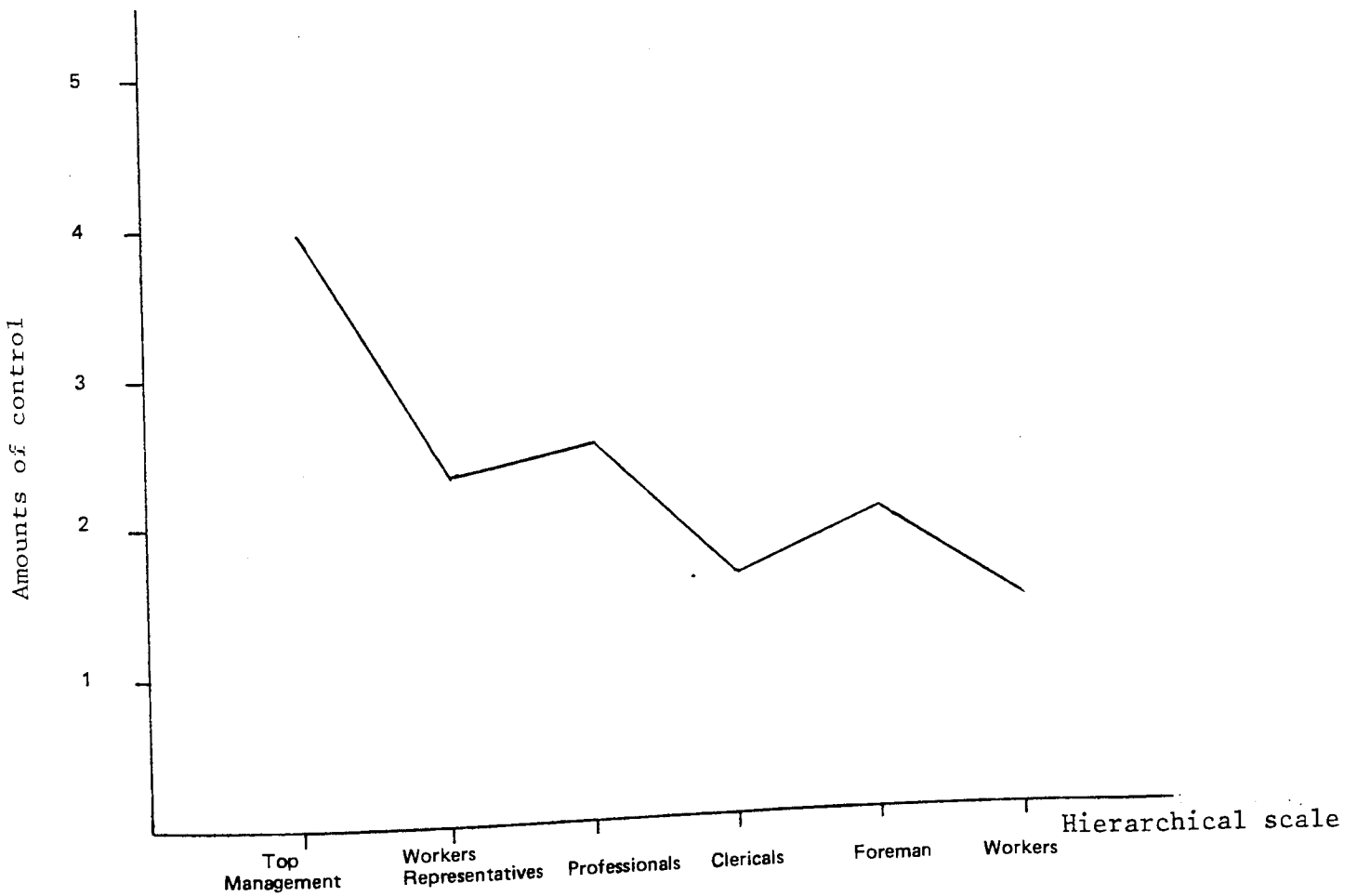


Figure 9.3 - Control Distribution (Egypt)

Communication with worker representatives appeared to become more unsatisfactory as we moved down the hierarchy ($\chi^2 = 88.80 > \chi_{(0.001)}^2 = 39.25$ with 16 degrees of freedom). That did not prevent the majority of shopfloor employees from feeling that their representatives had insufficient involvement in decision making, in contrast with the 78 per cent of directors who felt that employee representatives were already sufficiently involved ($\chi^2 = 126.77 > \chi_{(0.001)}^2 = 32.91$ with 12 degrees of freedom). The individual worker appeared to want more direct involvement with decisions regarding his own job, machine, production targets and so forth with his immediate supervisor. Decisions at higher levels he feels to be better left to his representative, who is perhaps better equipped to deal with matters at a departmental or entire company level. This is again similar to findings in British companies (Holter, 1965; Ramsay, 1976; Kamel, 1976; Marchington, 1976).

Taking the Western literature as our base point, the question of participation in Egypt may be approached through the views expressed on the level and content of employee involvement. Table 9.13 shows interviewees' responses to four suggested focii for participation. Their answers reveal the same preferences for cash benefits and for consultation over localised work methods as those which are common within Western capitalistic enterprises and worker-managed establishments in Yugoslavia. In other words, Egyptian public sector employees find joint involvement and consultation by immediate supervisors and managers to be more important than participation at Board level. However, this desire for increased participation is limited to a greater chance to influence the eventual decision and not to have control over or be responsible for the final outcome. In this respect, Egypt appears to be little different from other Western countries (Hespe & Little, 1971;

Marchington, 1976; Kamel, 1976).

Table 9.13

Below are some statements connected with the idea of participation in industry. Could you say whether you agree, disagree or are unsure about each of the statements.

Aspect Group	Directors % *	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %	χ^2
Employees should all share in the cash benefits of the company	93	91	98	93	99	98	98	$64.53 > \chi_{(0.001)}^2 = 45.32$ with 20df
Management should disclose information to the shopfloor and consult them about methods of work	65	71	77	86	81	79	80	$105.88 > \chi_{(0.001)}^2 = 45.32$ with 20df
Shopfloor representatives should sit on the Board of Directors	35	58	82	82	65	94	69	$113.25 > \chi_{(0.001)}^2 = 45.32$ with 20df
All employees should own the company and run it for themselves	20	22	42	48	13	58	24	$85.23 > \chi_{(0.001)}^2 = 45.32$ with 20df

* Percentage replying agree or strongly agree.

Grand total = 650; Directors 78; Professionals 130; Clericals 130;

Foremen 130; Workers 130; Workers' Representatives 52.

The opposition felt by directors towards the current form of participatory arrangements is demonstrated by the fact that nearly two thirds of their members disagreed or were unsure about it. On the other hand, so were nearly a third of shopfloor employees. Their antipathy towards strategic involvement was also shown by the low percentage supporting worker control. The widespread employee support for profit sharing must be set against the low levels of financial remuneration set for all workers and against the difficulty that junior workers have in supplementing their earnings by outside work (moonlighting). In the early years of the Yugoslav experiment, Blumberg (1968) suggested:

"It is undoubtedly true that many workers in Yugoslavia are apathetic regarding the system of workers' management and are interested only or primarily in economic issues closest to their own lives. This, certainly, is at least partly a consequence of the poverty, backwardness and ignorance of the population" (Blumberg, 1968, p 227).

As in the aforementioned studies of participation (most notably Obradovic, 1970; Wall & Lischeron, 1977; IDE, 1981), younger and more educated employees were most likely to be interested in running their own companies (Age: $\chi^2 = 16.01 > \chi_{(0.01)}^2 = 13.28$ with 4 degrees of freedom, Education: $\chi^2 = 17.03 > \chi_{(0.001)}^2 = 13.28$ with 4 degrees of freedom).

Informal participation and supervisory relationships

In order to explore the exercise of workplace control in the workings of a compulsory participative system, we asked subordinates to describe their relationship with their immediate supervisors. The vast majority of (77 per cent) across all grades in all plants and all types of technology described this relationship as either "bad"

or "very bad". These results appeared to be no different from the findings reported by IDE (1981) for Yugoslavia. The most dissatisfied groups were foremen (95 per cent), workers' representatives (94 per cent), and clericals (87 per cent). Sixty-nine per cent of operatives described their relations with foremen as "bad" or "very bad". These differences in interviewees' replies proved to be statistically significant even at 0.001 level of the sampling ($\chi^2 = 40.42 > \chi_{(0.001)}^2 = 22.46$ with 6 degrees of freedom).

The high percentage of dissatisfaction among foremen agreed with the Western studies regarding the middle manager's job (Child et al, 1978). The result may be best understood in the light of the circumstances of the public sector in Egypt. In general, there is an extensive use of very detailed operating procedures and of continuing recruitment of high school and university graduates in public companies (according to government policy, as explained earlier in Chapter Seven), all of which have left the foremen with a very narrow role in the organisational hierarchy and with few promotion prospects.

The second group to express significant dissatisfaction with their relationship with their immediate supervisors were workers' representatives on the Board. The logical explanation of their responses may lie in the marginality of the role they occupy, together with the conflict experienced in relation to their activities as representatives. Most of the time they were away from their sections and departments or even from their company. Their immediate supervisors worried about their work schedules and felt that they were doing nothing productive for the company. The case might be true particularly where workers' representatives were trying to use their influence to carry on their

own personal business or interests. One foreman suggested:

"They are doing nothing ... in the morning he (representative) always arrives at 9.00 am, after me, and plays around the management offices doing nothing ... When I complained to my supervisor he advised me not to complain otherwise I would be black-listed by management".

These feelings reflected those found in Western countries (Schneider, 1969). Child (1975) pointed out that the foreman's role and his authority were challenged by workers' representatives or the shop stewards:

"Indeed, the stewards' basis of authority, frames of reference for action, ideological justification and (sometimes) even their training were often more adequate than those of Foremen" (Child, 1975, p 7).

To examine the style of supervision and control exercised by the supervisors, subordinates were asked to indicate what style was adopted by their superiors on a given number of issues as shown in Table 9.14.

Table 9.14

Subordinates' views of supervisory behaviour

Aspect	Group				Total %	X ²
	Clericals %	Foremen %	Workers %	Representatives %		
Close supervision	57	52	61	17	60	30.35 > X _(0.001) ² = 16.27 with 3 df
Pressure to work hard	76	65	56	21	59	65.46 > X _(0.001) ² = 16.27 with 3 df
Detailed instructions on how to do the job	63	50	58	41	55	9.61 > X _(0.05) ² = 7.82 with 3 df
Rigid adherence to rules	77	68	80	68	74	6.91 < X _(0.05) ² = 7.82 with 3 df
Overall involvement in decisions which may affect work	35	35	32	76	32	32.16 > X _(0.001) ² = 16.27 with 3 df

Grand Total = 442; Clericals 130; Foremen 130; Workers 130; Workers' Reps 52.

From inspection of Table 9.14 it is clear that the most directive styles of supervision were found to be on the shopfloor, where 61 per cent stated that their superiors tended to watch over them. The statistical significant difference between groups was at the 0.001 level ($\chi^2 = 30.35 > \chi_{(0.001)}^2 = 16.27$ with 3 degrees of freedom). Yet, they resented their foremen's pressure to a lesser extent than other groups ($\chi^2 = 65.46 > \chi_{(0.001)}^2 = 16.27$ with 3 degrees of freedom). Perhaps this may be explained in the light of the fact that most of them (83 per cent) had moved from rural areas to urban employment. Originally, they used to work as farm labourers, an experience which tends to create time slackness and lack of work discipline (Kerr et al, 1973). But this was counteracted by the periodic interventions of the farm supervisor in a very harsh manner. As such, it seems that most of the workers are accustomed to the authoritarian type of supervision.

Although the conclusions from our data must indicate the prevalence of autocratic or authoritarian styles of supervision (particularly at the lower levels of the hierarchy), this does not indicate ineffectiveness. Researchers differ greatly in their opinions as to the type of management style that should prevail in an industrial organisation (Stanton, 1960). It appears that no one particular style of leadership is more likely to be associated with high job satisfaction than any other provided it is the style preferred by subordinates (Sadler, 1970). It is clear from Table 9.15 that the majority of the respondents were in fact satisfied with their

existing method of supervision, with no significant differences between groups' replies ($\chi^2 = 0.76 < \chi^2_{(0.05)} = 7.82$ with 3 degrees of freedom).

Table 9.15

Acceptance of autocratic supervision

Aspect Group	Clericals %	Foremen %	Workers %	Workers' Representatives %	Total %
Yes	73	70	70	75	67
No	27	30	30	25	33
Total	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=52)	100 (N=442)

$\chi^2 = 0.76 < \chi^2_{(0.05)} = 7.82$ with 3 degrees of freedom.

The respondents' attitudes on the style of supervision that prevails in the industrial public sector in Egypt are in line with Tannenbaum et als (1974) findings on the absence of informal participation in Yugoslav organisations. They argue that participation cannot be determined or achieved by constitutional changes alone, but is subject to culture and tradition; to the habits; norms and skills of organisational members.

"Authoritarian hierarchical relations in pre-war Yugoslavia were fostered by persistent unemployment, which led many persons to accept work under the harshest conditions. The factory was a symbol of exploitation of which management was the most visible executer, and workers regarded authority figures with a mixture of hatred, fear, and reverence. These attitudes ... were not conducive to participative relations ...

Nor did the new manager have the skills or understanding to fulfill his role as participative leader. After all, his experience in organizations was like that of the workers under him, hierarchical and authoritarian" (Tannenbaum et al, 1974, pp 221-222).

The circumstances are the same in Egypt. Although employees in Egypt have been given the constitutional right of participation, this formal compulsory arrangement does not, however, give a real chance to exercise influence in the daily operation of the plant. Participation through representative bodies does not mean that employees really enjoy this right or are even aware of it.

Employees' awareness, acceptance and satisfaction with the profit sharing scheme

The importance of the scheme to the individual, his or her knowledge of its operation and the aims behind its application have been used as three main criteria of commitment and awareness of the profit sharing scheme. It is clear from the analysis of the data that a vast majority (95 per cent) of the sample feel the profit sharing scheme to be important regardless of their position in the occupational hierarchy ($\chi^2 = 18.10 < \chi_{(0.05)}^2 = 18.30$ with 10 degrees of freedom). This overwhelming recognition of the importance of economic participation might be expected, if only because of the relative importance of the cash reward it represented. In this respect employees in developing economies appear to differ very little from their counterparts in industrialised Western countries. For instance, in the Kalamazoo Company in the UK the majority of the sample (82 per cent) saw the importance of their scheme in similar instrumental terms (Kamel, 1976). Other researches in the West demonstrate the workers' preference for economic participation rather than participation in management (Flander et al,

1968; Ramsay, 1976; Marchington, 1976).

The higher response of the Egyptian sample over that of the Kalamazoo sample may be explained and understood better in terms of differences between the two countries' level of wages and standard of living, as well as the consequences of the poverty and general backwardness of the population. Yet, the relatively small differences in these other data in this study seems to suggest that shopfloor workers in the West and in the East think along similar economic lines and see profit sharing primarily in these terms. Certainly, this basic source of motivation is revealed to be present in the Egyptian sample. For the majority of respondents who considered the scheme important to them, it was thought to be important for financial reasons rather than from a feeling of partnership and sense of belonging; only 3 per cent regarded it in moral terms. This was most particularly true of shopfloor respondents (62 per cent of shopfloor as against only 16 per cent of management) and these differences were significant ($\chi^2 = 104.43 > \chi_{(0.001)}^2 = 59.70$ with 30 degrees of freedom). For the minority, who considered the scheme as unimportant for them, their dissatisfaction was concentrated on the insufficiency of financial returns. These results suggest that, for the majority of our sample, profit sharing is important as a supplement to wages determined according to their grade in the NCWS (Chapter Eight). Comparing these results with an early survey conducted by the author over a similar sample in 1968 (Kamel, 1971), the orientations of respondents are seen to be almost exactly similar. If these two samples are to be taken as typical, the learning that had taken place over the intervening period may be negligible. The aim of generating a moral involvement in the firm set by the government does not, therefore, appear to have been attained.

Table 9.16

The most important aims are seen to be in reality from applying profit sharing scheme (in brackets) compared with the government aims

Aspect Group	Directors %	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %
Increase employees' right of control in the company	9 (8)	8(11)	8 (9)	11(13)	12(13)	14(21)	11(11)
To achieve higher economic results and increase productivity	13(33)	13(19)	15(22)	16(32)	20(45)	13(29)	18(36)
To improve morale, team work and cooperation	16(31)	18(43)	21(53)	14(36)	14(29)	13(24)	16(35)
To reduce wasted time, material ... etc	10 (3)	12(10)	10 (9)	9 (9)	9 (7)	10 (3)	9 (9)
To attract and hold desirable employees (reducing labour turnover)	7 (2)	7 (2)	7 (1)	9 (2)	7 (-)	7 (-)	7 (1)
To improve economic security for employees	12(15)	10 (9)	10 (2)	10 (7)	10 (5)	9 (2)	10 (5)
To further employees' interests in company loyalty, feeling of partnership, sense of belonging	11 (8)	15 (5)	11 (4)	12 (1)	11 (1)	15(21)	11 (2)
To facilitate the introduction of new methods and equipment	6 (-)	6 (1)	7 (-)	9 (-)	7 (-)	7 (-)	7 (1)
To fool the workers	16 (-)	11 (-)	11 (-)	10 (-)	10 (-)	12 (-)	11 (-)
Total	100 (n=78)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=52)	100 (N=650)

Taking the employees' acceptance of the idea of letting their children work for the company as a measure of commitment, the latter group are much more likely to support profit sharing than non-committed ones: ($\chi^2 = 9.34 > \chi_{(0.01)}^2 = 9.21$ with 2 degrees of freedom). Among the shopfloor operatives who were thus committed, 95 per cent were supporters of the scheme as against 10 per cent of the uncommitted. But the largest proportion (45%) of committed workers still saw the scheme as being introduced for narrow instrumental reasons (productivity) rather than for either moral (loyalty) or manipulative (fool the workers) reasons. Some dispersal of belief was inevitable, for example representatives were more inclined than others to see the ultimate aim of profit sharing in power oriented (employees' rights to control) terms.

Given the varying focii of employee interests it should come as no surprise that shopfloor ignorance on the workings of the scheme should be so widespread (Table 9.17).

Table 9.17
Respondents' knowledge in respect to a range of
strategic decisions concerning the operation of the scheme

Aspect Group	Directors %	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %	χ^2
Do you know who agrees the company's profit level?	100	82	55	51	17	94	36	$211.64 > \chi_{(0.001)}^2 = 20.52$ with 5 df
Do you know how the profit will be distributed before the distribution is made?	95	72	47	43	9	89	25	$207.53 > \chi_{(0.001)}^2 = 20.52$ with 5 df
Do you know who decides the employees' share?	100	81	49	36	9	94	25	$261.04 > \chi_{(0.001)}^2 = 20.52$ with 5 df

Grand total = 650; Directors 78; Professionals 130; Clericals 130; Foremen 130;

Workers 130; Workers' Representatives 52.

As it was expected, representatives at the Board (elected members) came close to the knowledge of the top management and saw themselves as knowing more than professionals. Also, it is clear that the bureaucratic constraints on information flows are evidently more intense for line foremen than for clerks. Obviously, the latter group may have access to knowledge through their work in a way which is not available to the former. In this respect, also, it appears that this sample of Egyptian employees coincides with that the occupational responses recorded by the researcher in the Kalamazoo Company (Kamel, 1976).

Although hierarchy had a significant effect on the amount and quality of overall knowledge which employees have concerning the scheme, commitment had an effect as well: ($X^2 = 28.72 > X_{(0.001)}^2 = 10.83$). In practice, this effect can be seen to overcome much of the alienating impact of bureaucratic hierarchy. Executives, professionals and representatives remained au fait with profit, losses and the question of how these distributions were made whether they were committed to the scheme or not. The significant effects of commitment were to be found among junior employees, foremen, clerks and shopfloor operatives: ($X^2 = 22.33 > X_{(0.001)}^2 = 20.52$ with 5 degrees of freedom).

Research studies in the industrialised world - particularly the USA - showed employees' acceptance of profit sharing and their positive attitudes towards such schemes. This was true, for instance of the Kalamazoo's sample, where the majority declared that, if they had been employed at the time when such a scheme was first introduced, they would have been in favour of it (Kamel, 1976). At that time, the majority of 78 per cent considered the scheme at Kalamazoo to be good (Ibid). In the Egyptian sample, the case was the same and the acceptance of the profit sharing was clear (75 per cent). However, despite this

overwhelmingly favourable attitude, a bare majority (53 per cent) was satisfied with its implementation.

Much of this dissatisfaction was to be found among top managers, only 43 per cent expressing satisfaction with its achievement. Furthermore, by comparison with the 1968 sample taken by the author across a sample of Egyptian firms, management satisfaction had been declining over the period 1968-1978. In the latter sample, management satisfied with the scheme and its achievement were found to be in a majority of 58 per cent, whilst in the present study it was 43 per cent only. By contrast, 75 per cent of managers at Kalamazoo were satisfied with the achievements of their scheme: significantly higher than the numbers of shopfloor workers (57 per cent). Similar results were reported from the USA (Knowlton, 1954; Metzger, 1964). This difference between the attitude of the Western and those of Egyptian managers may reflect the fact that in the former case the scheme is under the administration of the company management itself and helped to ensure management prerogatives. In Egypt on the contrary, profit sharing has been taken out of the hands of the enterprise and is, therefore, alienated from management. Frustrations at delayed distributions and low share-outs have to be borne by management who have little or no control over its operations. Little wonder that there is an overall lack of the Egyptian management support and declining interest over the period of its implementation. It has been argued that management's desire for and support of such schemes might be considered to be one of the main criteria guaranteeing their success (eg Meier, 1957; Metzger, 1964). Managers' growing lack of enthusiasm might be seen to have considerably undermined the workings of the Egyptian scheme.

Table 9.18 compares the responses of American and Egyptian managers concerning the effectiveness of profit sharing schemes in relation to specific achievements and benefits. The Egyptians responses were overall lower than their counterparts in the West, particularly in the case of senior managers. Interviewees were asked to state the main achievements of the present scheme on a five point scale with answers ranging from "very effective" to "not relevant to the scheme in existence".

Table 9.18

Effectiveness of profit sharing schemes relating to specific benefits

Aspect	Group	American Managers* %	Egyptian Managers %
Increase employees interest in the company, loyalty etc		93	61
Improved morale, team work and cooperation		93	60
As a means of recognising and rewarding individuals		82	55
Improving quality and pride of workmanship		82	58
Increased productivity		81	62
Introducing new equipment and methods		64	62
Attracting and holding desirable employees		79	56
Reducing wasted time, materials etc		62	59
Economic security for employees		60	64

* Source: Metzger, 1964, pp 100-101.

It is clear from the above Table that the Egyptian managers of the public enterprises rank the achievements of the scheme much lower than the Western managers, particularly in regard to its effectiveness on morale, loyalty, feeling of partnership and sense of belonging. Taking into consideration that some of them credited the scheme, during the interviews, with above mentioned achievements, it might appear that they were afraid during the interviews to say otherwise, since it might be taken to indicate opposition to the scheme and, therefore, to be unpatriotic.

Respondents who confessed that the scheme was not working satisfactorily gave it as their view that the main problem was a result of its failure to reward performance. The spread of incentive schemes since the Government allowed such rewards in the nationalised sector, since 1970 that is, has brought an awareness of the disjuncture between individual and group rewards and of what might be achieved within individual incentive schemes. The frustration experienced by both management and shopfloor recipients of profit shares at the delays and injustices imposed by the centralised bureaucratic system has been reinforced by the addition of individual incentives.

The basis of distribution in the present scheme is the structure of employees' wages and salaries (see Chapter Eight). Only 56 per cent of the sample showed satisfaction with this, while 40 per cent were against it, with no statistically significant difference between occupational groups' responses ($\chi^2 = 9.05 < \chi_{(0.05)}^2 = 18.07$ with 10 degrees of freedom). However, the reasons for the acceptance of the existing basis were varied. For lower

levels of organisation there was little guarantee of objectivity in applying alternative methods, eg efficiency and management's reports. They showed a wariness about favouritism if another basis was used. For higher levels of staff, the current basis benefits them financially because their higher salaries (in accordance with the NCWS grading).

For others the reasons behind the rejection of the present wages and salaries structure as a basis for distribution relate to a rejection of the bureaucratic system, by which the same share of the profit is given to employees in the same category or grade (according to the NCWS), whether they contribute the same amount to the present effectiveness or not. The NCWS is built on the assumption that it is the achieved level of education that should be rewarded (see Chapter Eight), therefore, people with higher education get a better salary than people at the bottom of the hierarchy. The fact that academic achievement is further related to current profits makes it appear that those at the top contribute more than those at lower levels. Employees, particularly at the lower levels of the hierarchy, find it difficult to understand this basis.

It seems to them that the government, by relating the share of each individual employee to their wages and salaries, desired to control and reduce the actual distribution to the large mass of employees on low wages. Since there is also a maximum limit to the employee's share (LE75) the feeling of frustration was often articulated as "so why should I exert more effort?". Only 59 per cent of the sample was satisfied with this maximum level, but this dissatisfaction was most evident among staff employees for whom the limit had a reality not present among the lower paid manual workers ($X^2 = 33.70 > X_{(0.001)}^2 = 20.52$ with 5 degrees of freedom). It seems clear that opinion is divided - as it was over the basis of the scheme -

in accordance with the relative value of the maximum limit of LE75 as a proportion of salary earned.

Table 9.19

Acceptance of the existing
maximum limit of their cash share

Aspect Group	Directors %	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %
Yes	42	51	62	53	78	58	59
No	58	49	38	47	22	42	41
Total	100 (n=78)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=52)	100 (N=650)

$\chi^2 = 33.20 > \chi^2_{(0.001)} = 20.52$ with 5 degrees of freedom.

In spite of the length of time taken in determining the national level of profit distributions and the frustration experienced by the apparent lack of coupling between performance and reward, the overwhelming majority of respondents felt a once-a-year distribution of profit shares to be preferable to more frequent distributions. Their reasons related to its small size, on the part of senior staff, and to its possible contribution to the family budget at a critical period of expenditure on the part of workers. For the latter reason, 40 per cent of the operatives would like to change the timing of distributions to the start of the school year. While a majority of all informants in all grades were satisfied with the proportion of profits distributed (25 per cent of gross value added), as many as 43 per cent of the foremen thought

the share size to be bad or very bad. There is little doubt that, like their counterparts in the West, these staff feel that their overall earnings differentials have been eroded by the operation of cash incentives to shopfloor operatives, as do professionals (39 per cent dissatisfied) ($X^2 = 32.40 > X_{(0.001)}^2 = 29.59$ with 10 degrees of freedom).

In part this high level of dissatisfaction was caused by the knowledge that these groups possessed of the manner in which the scheme levelled out differences in rewarding good and bad performers among other companies (Table 9.20). But the shopfloor workers also expressed a certain cynicism in rejecting the aims of the present allocation of profits between cash distribution, the social and housing services of

Table 9.20

Respondents' knowledge of differences in the profit distribution among public sector companies

Aspect Group	Directors %	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %
Yes	82	55	37	53	35	53	40
No	10	11	23	17	18	18	19
Don't know	8	34	40	30	47	29	41
Total	100 (n=78)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=130)	100 (n=52)	100 (N=650)

$X^2 = 60.10 > X_{(0.001)}^2 = 29.59$ with 10 degrees of freedom.

the company and the central, Government allocated, expenditure on social services (Table 9.21). There is little doubt that these latter areas of expenditure are determined by largely political considerations or those of national fiscal policy, which may completely distort any relationship between the outcomes of profit schemes at company level and the received back benefits to the individual employee.

Table 9.21
Satisfaction with the subdivision of profit share

Aspect Group	Directors % *	Professionals %	Clericals %	Foremen %	Workers %	Representatives %	Total %	X ²
10% cash	68	45	49	44	39	61	46	$48.10 > X_{(0.001)}^2$ $= 45.32$ with 20df
5% share of social and housing services	61	53	43	26	17	51	26	$96.03 > X_{(0.001)}^2$ $= 45.32$ with 20df
10% share of central social services	62	50	33	29	15	44	23	$82.51 > X_{(0.001)}^2$ $= 45.32$ with 20df

* Percentage replying much or very much satisfaction.

Grand total = 650; Directors 78; Professionals 130; Clericals 130;

Foremen 130; Workers 130; Workers' Representatives 52.

Given this divorce between the local input of effort and the criteria by which 'profits', or the nationally determined level of value-added, was distributed, one might not expect to find much relationship between its operations and the individual commitment shown by the employee to the firm. In practice, a majority in all groups of junior employees answered positively when asked if the present profit sharing scheme was an incentive to staying with their company. Only among directors (54 per cent) and professionals (50 per cent) were there large numbers of whom it had no effect in keeping up with their present employer. There seems little doubt that the answers to this question was based on a calculation that regular cash bonuses added to the security of their income in the public sector rather than being a reflection of a more personal identity with the company's performance. For the latter to be true, the size of the bonus would have to be at least loosely related to the performance of their organisation in the mind of the employee.

Conclusion

Our attitude survey confirms that the mode and the manner of applying profit sharing scheme in Egypt had not had the educational effect on attitudes desired by the political elite either at executive or junior level of the firm. From the data presented in this Chapter it seems that the main factors determining job satisfaction and commitment to work in Egyptian public industry are in many ways comparable with those shown to be present in Western capitalist societies. The effect of the occupational hierarchy in determining the level of discretion enjoyed by role incumbents and, therefore, their degree of intrinsic job satisfaction is also very similar (Tannenbaum et al, 1974). Yet, it might appear that

as in Yugoslav data quoted in the text, the orientations of employees in developing countries are more likely to be of a "bureaucratic" rather than of a "cosmopolitan" variety (Goldthorpe et al, 1968). In our sample, employees were realistically looking to incremental progression inside their firm and not moving between firms, even while sometimes fantasising about owning their own business. Employees in Egypt appear to seek secure career lines offered by the large corporation and to derive prestige in the community by their association with a well-known commercial organisation. The predictability of a bureaucratic administration, which because of its salience has to obey government regulations, is better regarded than the more unregulated employment offered by smaller employers.

It might, also, appear from the data presented in this Chapter that there is a desire for greater participation among people at the lower levels of the hierarchy, but this desire is limited to economic participation and to the opportunity to influence the eventual management decision rather than being responsible for the final outcome. In this respect, Egypt appears to be little different from the Western capitalist societies. There is, however, an important difference about the employees' feeling of involvement found in Egypt and degree of participation found in the West. The Egyptian employees feel their involvement to be far below that found in the Western countries. This may have some damaging effects in the frustrations felt, particularly by younger male, highly qualified and educated employees.

The main factors affecting employee attitudes to participation in the Egyptian public sector were comparable with those shown by other researchers to be present in Western societies. Again, these are largely connected to positions in the organisational hierarchy with junior

employees desiring more influence over departmental affairs. Size of the public organisation appears to have had no effect on employee attitudes and involvement in the Egyptian case. This agreed with the recent findings of Tannenbaum et al (1974) and IDE group (1981). Altogether this data, in regard to personal and organisation factors, would suggest the prevalence of individualistic rather than collectivistic attitudes and orientations among Egyptian public sector employees, in contrast to those encouraged by the political elite.

Indeed, even after more than twenty years of application there is - as our data confirms - no widespread awareness and involvement in constitutional forms of participation from the employees side. These results confirmed the early findings of El-Sayed (1977). The majority of workers considered the scheme a failure because of the limited role their representatives plays and that the scheme had brought no progress in their status as a part-owner of the public enterprise. There is, nevertheless, more radical support among professionals which may reflect the historical conflict between them and line managers, found also in the West. But, professionals in our sample seemed to have a more bureaucratic orientation than has been found in some Western studies. It has been suggested that professional groups are being forced to come closer to management and to reduce their attachment to their professional values, traditions and interests (Child, 1981). However, signs of their dissatisfaction with their market and work status were evident in this study and seem to be giving rise to somewhat more radical approaches to employee participation among these groups.

The disaffection amongst directors was clearly the most worrying feature of our findings and the early studies in Egypt

(El-Sayed, 1976). It is clear from the interview material that suspicions and hostility towards elected worker representatives and, indeed, their manipulation by appointed Board members seem to be growing rather than diminishing as managers become more professional. Representatives may be coopted in numerous ways, including overt bribes such as upgrading, promotion and other extrinsic incentives. In addition, constitutional democracy does not guarantee a changed style of supervision and informal relationships. Our data suggest the existence of autocratic authoritarian modes of management rather than democratic supervision and this endorsed the early findings of Badran (1975) and El-Sayed (1976). It was also a finding of Tannenbaum et al (1974) and IDE group (1981) in their survey of Yugoslavian industry.

"There is no democratization of organisations without democratization of management practice. Perhaps this democratization of leadership is not a sufficient condition but it is evidently the most elementary one for the overall democratization of organisations" (IDE, 1981, p 206).

Yet, the data analysed in this Chapter seem to support the view that the existence and acceptance of leadership style is more likely to be affected by the situational factors. Moreover, it seems that the less qualified and educated employees in new developing countries accept the authoritarian leadership and that this is perhaps determined and subject to habitation, cultures and traditions (Tannenbaum et al, 1974). However, higher qualifications may affect employees' feelings and attitudes towards their superiors. The more qualified employees do not like authoritarian supervision and, in this respect, Egypt does not differ from the Western finding. The higher loyalty which employees express to the purposes of the organisation does not bring with it a willingness to accept the autocratic styles of their, generally older, and more traditional superordinates. It might appear

that the groups which have responded most positively to participative ideology, are to be found among white-collar qualified staff and it is among such groups that the highest levels of frustration are to be found.

The analysis in this Chapter suggests that the compulsory application of profit sharing in the Egyptian context has resulted in frustration - for both senior executives and junior workers - because of the bureaucratic centralised system. Profit sharing has indeed, become in itself another extension of bureaucracy in the Egyptian public sector. Senior management are not satisfied and, therefore, do not support the scheme, because they cannot determine its goals or even administer it, while the lower level employees feel frustrated, because their raised aspirations have not been fulfilled yet, and they do not consider the scheme to be a form of grass-roots democracy. However, overall satisfaction with the present scheme and the main responses of the sample do not appear different from those experienced in Western capitalist economies and Yugoslavia. Awareness and consciousness of profit sharing seems to be limited to the money employees get, that is, to a simple cash transaction. Employees behaved individually as well as collectively in a manner that related to their position in the hierarchy and the market place.

Little appears to have been achieved in terms of the wider political goals of raising workers identity with the enterprise or state as a result of centralisation of its working. Several factors have been emerged from this fact and contributed to reducing the opportunity of success of the scheme. Most important was management's lack of support for the scheme. In part this might be due to the forced application of the scheme without consultation. This emphasises the results of other studies carried out in relation to the schemes for employee participation in Egypt (eg Badran, 1975; El-Sayed, 1976).

Lack of knowledge and information on the part of the employees, concerning the main objectives of the scheme, contrasts with the knowledge and commitments shown by employee Board representatives.

There are many reasons for this ignorance. Possibly the most important is the lack of interest shown by the employees themselves. Most of them are too close to subsistence level to be greatly concerned with the more abstract features of the scheme. Nevertheless, the complicated system used to administer the scheme leaves most participants totally unable to trace the relationship of their firm to the amount of profits distributed. The roles of government agencies appear obscure to those not immediately in contact with them.

The use of the NCWS grading system as the sole basis of profit distribution is challenged by managers and professionals. Although the wages and salaries policies in socialist countries may be used as a means of modifying the basis of social stratification, it is clear that bonuses or other means of supplementing the basic earnings of employees may conflict with the criteria of justice and equity emphasised in the dominant ideology. However, it is the high status groups which look for greater freedom from national restrictions. It is they who see the relationship between their firm's performance and its place in the national economy most clearly. It is, then, those people who occupy strategic roles in the firm who most easily see the importance of their roles and wish to see it better rewarded in the manner that short-term incentives are offered to shopfloor workers.

This result is hardly encouraging for the long-term political goals of the regime. However, the overall satisfaction of junior employees with the 'windfall' payments offered by the scheme cannot be discounted. For this reason the timing of the payments become important to their success in reinforcing working class allegiances.

Furthermore, the role of the Board representatives, apparently fully coopted to managements' objectives, in educating shopfloor employees, might be the subject of further attention if the system is to become effective in changing attitudes and commitments.

CHAPTER TEN

Summary and Conclusions

The principal objective of this thesis is to evaluate the degree of success in applying profit sharing schemes- as a form of participation - in developing command economies, Egypt being the case study. In order to achieve this objective, the researcher has carried out a survey among the employees from the Egyptian industrial public sector by means of a questionnaire and interviews. The information so collected was analysed against a background of the Egyptian environment in order to understand the historical and operational situation within which the scheme was introduced in order to highlight existing problems. The analysis attempts to answer the question of how to improve the scheme and its operation.

As a model of Egypt developing countries, faces a number of social, economic and political problems to which industrialisation is seen as both cause and solution. Although industrialisation and economic development has had a long history in Egypt, in reality, it started in the fifties of the present century after the nationalist elite seized power in July 1952. Since then the State has assumed full responsibility for development and industrialisation by establishing the public sector after its failure to encourage foreign and local entrepreneurs to carry out and to foster industrialisation.

By the 1960s the government's intervention became more clear and its presence was obvious most of the organisations having been transferred to the public sector, which move was synchronised with a defined economic plan. The government's regulations of work and the labour market relationship between workers, management and labour organisations

became more explicit. The political elite aimed to create a disciplined industrial labour force and to ensure productivity and efficiency, thus increasing national income, raising the standard of living and creating new jobs.

The State's intervention during recent history has, in fact, improved the conditions of the employees, since the State has taken measures to alleviate their hardship and stabilise working conditions. This concern for workers' satisfaction may be seen as designed to demonstrate that workers - in a command economy - are partners and part owners of the means of production. By these means, the government has reduced the fear of workers' revolt against the regime and of class struggle, on the one hand, while it has ensured workers' allegiance to their objectives, on the other hand.

From the beginning of the 1960's, industrial democracy or employee participation has gained currency as part of a wider ideology and a doctrine by which to govern and to achieve a socialist economy in Egypt. Formally, employees in the public sector have gained the right to participate in the management of their enterprises and to share in their profits.

The evidence gathered in this study suggests that the main motive behind implementation of participative schemes is political rather than economic. Egypt under the rule of charismatic leadership has required the introduction of such an ideology which enables the routinization of its authority. Industrial democracy tends to be a vehicle for putting into practice, in the industrial sphere, the elite's philosophy of participatory democracy. Participation schemes in the context of Egypt may be seen as one aspect of a complex system of social control in which

the industrial relations system has to be linked with that of the political system.

The present study has tried to evaluate how far such participative schemes can succeed in achieving the elite objectives in developing command economies. Our null hypotheses are taken from the following assumptions put forward by the proponents of such schemes. There is a demand for participation and employees are willing to accept and are aware of it, all of which will increase their satisfaction and will help in achieving the objectives behind its application; the application of workers participation in management and profit will lead to an increase in employees' satisfaction, loyalty, commitment and discipline. Formal participation can also lead to achieving informal participation, improving supervision and creating a co-operative atmosphere. All of this will facilitate and endorse management's authority over workers. Most importantly it is assumed that the enforced application of profit sharing schemes accompanied by workers' participation in management and by state ownership, will be accepted and that success of such schemes is guaranteed.

Since participation, like other techniques and innovation, was introduced in Western industrial societies, the study began by surveying the circumstances leading to such application.

The literature survey has demonstrated that employee participation has a long history going back in a formal sense to the introduction of the factory system and the beginning of the Industrial Revolution. Industrialisation affected a radical change in the structure of Western societies. It had both detrimental and beneficial effects on the society, but the important point is that it invoked the necessity of regulating the relationship between labour and capital. A number of ideologies

and theories came into being in the attempt to justify the authority of management over the workforce. The Theory of Dependence and of Laissez-Faire were the major early doctrines which aimed to help to motivate and justify industrial management. Nevertheless, throughout this period the workers' awareness of their collective position in the market grew, until finally they established permanent trade unions.

The fear of a workers' revolutionary action was one pressure for reform, but other movements arose, some broadly humanitarian, others Christian or aesthetic in origin, condemning the injustice and ugliness of the factory system and calling for the reorganisation of the society. At the same time, Marxists and others blamed the capitalist laissez-faire system for creating worker alienation. All these circumstances led employers to search for new concepts and techniques to ensure workers' co-operation and make them more loyal to their objectives. Scientific Management's techniques and Human Relations Theories were historical examples of management's continuing attempts to solve their perceived problems.

By that time management teachers in industrialised countries could no longer ignore the fact that the workers' loyalty appeared to be divided and that there was a conflict between the objectives of the organisation and those of the workers and their unions. Participation has often been seen as a remedy for this problem. By involving workers, management seeks to overcome feelings of alienation and to increase their loyalty to organisational objectives. Even so, there is a debate around the forms and objectives of such schemes. Many contend that participation can and does increase satisfaction, loyalty, commitment and trust, improve superiors-subordinates relationships, and create a common

purpose - all of which will increase efficiency and productivity. This is seen as legitimising management authority and providing a system of control which is based on a moral involvement rather than a calculative one.

Participation can in practice involve varying numbers and types of organisational membership. Even with participation in management alone there is no constant objective and it varies with the scope and contents of the agenda. Profit sharing is merely one of these forms of participation. It has had a long history in industrialised societies but there is a revived interest in it particularly in the USA and a number of Western societies with socialist tendencies. The application of such schemes is usually voluntary in pluralistic societies and introduced by agreement between all parties concerned at company level with only a limited Government intervention. The success of such schemes is still seen to be debatable by academics and other researchers.

Historically, the definition of 1889, which was formulated by the International Co-operative Congress on profit sharing held in Paris, is the basis upon which later ones were built. According to this definition profit sharing is based on an agreement which has to be honourably carried out. The employee's share must be in accordance with the profits achieved, where profit is defined as the net outcome of the business after paying all expenditure. The employee's share should be fixed in advance and on a pre-arranged basis.

Later official definitions differ in scope, but not in principle. For example, the British Government's conception of profit sharing schemes differs only in scope and not in the spirit of the former one. However, it can be observed that in practice both English and American

business appear to depart from the former definition in adopting a more diffuse view of profit sharing. In both countries it is the governmental agencies who wish to define the status of the employee and the rights of members more rigorously than employers.

From the literature survey we found that periods of growth in voluntary profit sharing relates to periods of rapid rises in money wages combined with increased competition in the product market. During these periods profit sharing seemed to offer advantages to both capitalist entrepreneurs as a labour market strategy, and to governments attempting to restrain the growth of money incomes. It has been noticed that the major factor in the failure of profit sharing has been a lack of profits to distribute. There is plentiful evidence that the schemes included in employer or consultancy educated schemes were not in compliance with the definitions set out by the various international and statutory bodies listed in the study. This suggests in itself further evidence of the transitory nature of such schemes in the employment strategies of a great number of firms.

Historical studies suggest that they may be seen as one of two forms of managerial strategy. The first is a short-term attempt to handle conditions of crises brought about by rising costs and increased competition in the product market. In such circumstances, profit sharing may be seen as part of an attempt to gain flexibility in the use of labour and greater control over costs. There is, however, a longer-term strategy in which such schemes were used as part of a broader approach to human resource management and which was only adopted by big corporations with more sophisticated and longer-term of methods and modes of management. The latter schemes, as shown by the literature survey, are more long standing and more likely to meet the conditions of trust and stability in relationships propounded by advocates of profit sharing.

Profit sharing is to be found in voluntary forms in the majority of Western cases. In developing countries a wide range of different forms of State ownership and social ownership, nationalisation and private ownership prevail, eg Yugoslavia, Syria and Egypt. The application of profit sharing in these cases is compulsory and the initiative is from the government rather than from management or trade unions. In addition, the forced application of such schemes may vary in terms of the structure of control operated in the enterprise. Management may be carried out by the workers themselves or their representatives on the company board or through a conventional hierarchy of authority. Generally, however, the compulsory application of profit sharing schemes accompanies some formal arrangement for worker participation in management.

The Yugoslav profit sharing scheme may be considered as a unique example of compulsory profit sharing schemes. It has been introduced as a part of a complex system of social control in which the role of self-management has been linked with that of the political process within the League of Communists. Profit sharing, therefore, cannot be looked at in isolation from the political, economic and social system and its overall objectives of achieving rapid industrialisation and a socialist society.

It was in the political elite's mind that application of self-management would help to achieve a common interest and freedom for market choice. Also, it seemed to them that the profit sharing could achieve a special kind of social control together with incentive system inside the State. The workers would find it in their interest to increase productivity and efficiency, as well as to achieve the political aims of the elite.

From the literature survey we found that the Yugoslav profit sharing scheme may have contributed to the evident success in achieving the aims and objectives of the elite in economic terms. However, we noticed, with reference to Yugoslavia, that even in a benevolent political environment and when combined with a self-management, profit sharing does not seem to bring about a complete identity of interests between different levels of workplace hierarchy in Yugoslavia. A number of reasons have been advanced to explain the continued dichotomy of feeling and identity that exists in the Yugoslav system: the influx of semi-literate workers has made the task of educating manual workers into an understanding of the institutional mechanisms of profit sharing extremely difficult. The hierarchy that exists in Western capitalism is repeated in the formal structure of Yugoslav administrations. Much has been made of the rise of the new managerial class as described by Djilas (1976) and of the effective control that management hold in respect to the day-to-day operation of the enterprise. Obviously, this may be due to the widespread adoption of the principles of Scientific Management in the design of the self-management enterprise. Indeed, the need for the rapid industrialisation was seen to demand the adoption of managerial systems of a conventional American/Russian form, that is, rigidly technicist in orientation. For the same reason, highly modern technology has been widely adopted by enterprise often with damaging effects for employment in local communities.

Against that it may be argued that the application of participative schemes with self-management has harnessed the various ethnic values of the Yugoslav communities and has left the differing and often conflicting political aims of their different occupational strata intact in the pursuit of local goals and purposes, rather than focussing on some higher and

barely understood ideological programme of social reform. Many of these conflicts are worked out in the framework of the enterprise and the commune without disturbing the overall regime of the League of Communists.

There are evident differences between the voluntary schemes of the West and the centralised compulsory schemes of the East. Obviously, the first noticeable difference concerns the origins of the schemes. Historically, the voluntary schemes were in effect long before compulsory schemes but introduced fairly late in the process of industrialisation, while the compulsory schemes are often used as a means to achieve industrialisation and are generally implemented at national level by the ruling elite.

With regard to the systems objectives, they differ from one company to another in the case of voluntary schemes due to the fact that they serve the individual entrepreneur's aims. In some Western countries - with a socialist tendency, for example France, the objectives tend to be that of emancipating workers during periods of political and economic crises. Yet, in the compulsory application the objective is a general and social one, serving a political and ideological purpose of the ruling elite. Nonetheless, there is evidence that suggests that the application of profit sharing in both forms has tended to be used as a device for coopting workers to prevailing systems of control.

The voluntary application in the Western industrialised societies may be often seen as an alternative to workers' participation in management. This contrasts with systems in socialist command economies where workers are, formally at any rate, in possession of many of the rights of ownership and control of the enterprise. Profit sharing may be seen as a corollary of this formal situation. In effect it may serve as a more effective source of economic or calculative commitment to the

system than the normative one claimed by nationalistic or revolutionary leaders. Furthermore, the workers' confidence in voluntary profit sharing in Western societies is limited because the management has the right to terminate or modify the schemes if they no longer serve its aims. By contrast, in socialist countries the workers may be thought to have more confidence in such schemes, because management does not have such authority and cannot affect the scheme in any way. Furthermore, there are constraints upon the public enterprise in relation to closing down its operations and in terminating the careers of its members. In addition, the method of accounting and determining the profit to be distributed in command economies is constant and, usually, follows a pre-determined basis of distribution which is followed by all public organisations. In voluntary applications, distributions are often varied and the actual profit may not be disclosed while an illusory profit less than the actual one may be announced. All this serves to give employees more confidence in the formal schemes than in the latter ones.

Distribution is usually different between voluntary and compulsory schemes. Within voluntary or management initiated schemes, profit can be distributed in the form of immediate cash or as deferred distributions in kind or as a combination of both. In compulsory application profit is most commonly distributed in the dual form of a current or deferred cash distribution together with cash spent on social services. In the countries applying voluntary schemes the emphasis of governments has been upon retaining labour mobility. Responsibility for social services are considered the responsibility of the State or of nationally controlled schemes of insurance unlike countries enforcing profit sharing schemes where employing organisations are sometimes made responsible for the provision of these services. The reasons for this difference is to be found in the lack of any well established

is to be found in the lack of any well established bureaucratic network along which to develop nationally controlled systems.

Profit sharing schemes in capitalist countries are often related to the contingencies facing the industry or organisation. There may, for example, be difficulty in carrying on the application of individual incentive schemes in some circumstances. Other difficulties arise from the size of the organisation, from the nature of production systems, or from the degree of mechanisation. Compulsory schemes are applied across all organisations and all industries, whether or not they are desired by all. The application of such schemes, however, may reflect the same effects of the contingencies facing the operation of the scheme in the way that such factors shape the structure of capitalist systems.

As a model of command economies, participation in Egypt was initiated by Government statute and Presidential Decree which, while binding the workers' loyalty to a specific economic establishment, ultimately hoped to reinforce loyalty to the regime. Furthermore, the whole system operates in a fixed and inflexible environment, the role of all its components being pre-determined. The State, also, is the big employer and the trade unions' role is changed to being an administrative arm for the political regime and ruling party helping to discipline and direct its followers to productivity and efficiency. In this context, worker participation in profit and management, also, becomes an important means whereby the elite can contain the balance of countervailing forces on wider society. Participation, has an important and active role to play in the routinisation of charismatic leadership because it fulfills so many political and socio-economic functions. Profit sharing was introduced with worker participation in management on the ground and belief that it would ensure a feeling of citizen involvement. In the absence of the private owner employees would find it in their interest to increase productivity

and efficiency. Furthermore, it was believed that the application of such schemes would bring about a complete change in authority relationships between the members of the industrial organisation and reduce management-workers conflict. Indeed, it was believed that by forcing management to explain strategic policy to subordinates a change in attitudes would be brought about on both management and workers sides.

The study has addressed itself to the analysis and evaluation of the degree of success achieved in the Egyptian compulsory profit sharing scheme, where studies and surveys have been rare.

It has been hypothesised that the implementation of employee participation at establishment level and in strategic management has brought employee satisfaction. Furthermore, the application of participation in the public sector is seen to give employees a sense of belonging which in turn makes them feel more committed and disciplined. It is hypothesised that the application of participation - in such an overt manner - in new developing countries might have a more positive learning effect than in Western industrialised societies of longer duration where such schemes are applied on a piecemeal and localised basis.

The revolutionary elite thought that such participative techniques were needed and should be recognised as the formal right of all employees, particularly in the public sector. Therefore, it is expected that over the many years of its operation, widespread support and involvement will have been generated and that all employees are willing to share at least some strategic responsibilities. It is hypothesised that Egyptian employees in the public sector will be willing to carry responsibility if they are given the opportunity to share in the management and profit

of their enterprise, particularly in the light of social ownership.

In a society which applies participation in management and profit sharing as an ideological principle, it is hypothesised that employees would be more cooperative and be on better terms with their supervisors than in the West. Also, it was hypothesised that management style would be democratic rather than autocratic: managers and supervisors would be willing to involve their subordinates in decision making, particularly in decisions affecting their jobs. In other words, it was hypothesised that in a formally participative society informal participation would also prevail as well. The forced application of profit sharing was believed to tie employees to their firms more closely and in the absence of the private owner, it was hypothesised that workers would find it in their best interest to increase their productivity and the overall efficiency of their plants.

It appears from the analysis of the data collected by the attitude survey that the compulsory application of profit sharing in Egypt (Law 111/1961) has achieved little in terms of the wider political goal of raising workers identity with their enterprise. Indeed, the forced application of the scheme has led to many problems which have affected its success. However, the main responses of Egyptian public sector employees do not appear very different from those experienced in the Western economies and in the Yugoslav command economy. The consciousness and commitment generated by the scheme seems usually to have been limited to the money employees get in the simple cash transaction. However, employees behaved individually as well as collectively in a manner which reflected their hierarchical status in the industrial organisation. There is little evidence that the compulsory implementation of the profit sharing scheme - for a quite long period - had any impact on employment

attitudes. Employees satisfaction and commitment have been affected by their position in the organisational hierarchy and size of establishment. Employees at upper levels of the hierarchy are predictably more satisfied with their job in comparison to those below and have a more favourable attitude to their firm. These Egyptian employees appear to have bureaucratic orientations rather than those of the cosmopolitan variety described by Goldthorpe et al (1968). They seek a secure employment offered by large organisations rather than the irregular employment offered by smaller employers.

But there is a desire for greater participation among employees at the lower levels of organisational hierarchy. This is limited to an opportunity to influence the eventual management decision rather than being responsible for the final outcome. Participation is more desired by shopfloor employees in terms of the cash benefits it brings rather than either consultation and joint involvement by immediate line managers or supervisors in day-to-day operations, or than through representation at Board level. Only among more educated and professional employees was more involvement sought. Among these employees there was considerable dissatisfaction with supervisory styles, by contrast to the deferential attitudes displayed by shopfloor employees.

Conflicts of interests, and suspicions and uncooperative attitudes have been found to exist between appointed and elected members of the Board. Worker representatives were evidently treated with suspicion by both their constituents and by other Board members. It is evident that as far as management are concerned, they are treated as grievance handlers, while on the other hand shopfloor employees identify them with management interest.

Several factors have contributed to reducing or eliminating the opportunity of success of the Egyptian profit sharing scheme, namely the National Cadre of Wages and Salaries (NCWS) grading system; management's lack of support; employees' lack of knowledge and information; and lastly, the bureaucratic administration of the scheme.

The profit sharing scheme in Egypt has to be set against the operation of the national job evaluation scheme based on the Cadre of Wages and Salaries. This structure is considered to be the basis for overall remuneration in the Egyptian public sector and is the means by which a hierarchy of earnings is maintained by government decision. The existence of such a hierarchy in command economies is evidently a matter surrounded by controversy. It is in itself a necessary and uncomfortable prerequisite of central State control. Moreover, in the case of profit sharing the controversy is in some ways even more convoluted and the argument somewhat confused.

The calculation of each employee's cash share is supposedly on the basis of his/her gross salary or wages. Employees at the higher levels of the organisational hierarchy receive a bigger part of the cash share value relative to the lower level employees. This criterion is, however, tempered with one of egalitarianism in the setting of the maximum cash share value of each individual employee allowed in the distribution of the surplus profits (LE 75). From interviews with State and business officials it has been discovered that there has been no serious study to determine the basis on which such limits should be affixed. It appears from the same interviews that the application of profit sharing creates a vast gap of earnings, which stems from differences in growth rates between different parts of the public sector. These differences can be traced to the allocation of resources by the government across firms important

to the long term growth of the economy. Profit in the steel industry may be low, while in the areas of food industries it may be high. Notwithstanding that the price mechanism is often manipulated by the government in a way that fixes transfer values between different industries in a way that reflects political priorities rather than being a result of efficiency or hard work.

The problem of unifying the basis of distribution to all employees in the public sector is one which is inherently difficult. To establish a kind of equal opportunity for profit as well as to guarantee justice in distribution is a dilemma which is revealed in explicit central regulation. Differences between companies' size of investment, capital, activities, level of technology, product market and number of employees cannot all be taken into account in the unified standardised rules of distribution. Although each employees' cash share value should be related to the whole production of the company, in reality it is up to the Minister responsible to increase the size of distribution more than the value suggested by the companies' value added. It can be financed from a reserve of past surpluses of the same company or others in the same industry, or from all the public industrial sector companies. Furthermore, in the case of non- or less profit making companies, as in the case of essential commodities, where the State determines the price of the product less or equal to the production cost without allowing for any value added, it is again up to the Minister responsible to compensate employees of any given company.

It was also the State policy from the beginning to control the employee cash value share and to keep it to a normative level. Furthermore, the banked residues of the cash share value - as mentioned before - are used as one of the main sources to finance the main economic projects

of the State. It is, however, clear that it is not only the surplus of cash share that is used in that respect, but also the deferred shares which are supposed to be paid to employees in the form of social benefits.

From the attitude survey, it was apparent that the use of the NCWS grades system as a basis of profit sharing distribution is challenged particularly by senior employees (ie top management) who look for greater freedom from national restrictions. It is hardly encouraging for the long term political goals of the government that it is those individuals who see most clearly the relationship between their firm's performance and its place in the national economy, wish to see it better rewarded in a way that offers short term cash incentives to them personally. On the other hand, the overall satisfaction of junior employees with the "wind-fall" payment offered by the scheme cannot be discounted. Its payment obviously reinforces allegiances to the regime, but the timing of the payment and the manner of its distribution entirely divorces it from the performance of either the individual or the firm.

There is no real sharing in the administration of profit sharing on the part of employees. The scheme is mainly administered and organised from outside the industrial plant and applied by government agencies. The bureaucratic administration of such a scheme has many drawbacks. For instance, there is an annual repetition in the Prime Minister's Decrees concerning the distribution of the profits. The change of language involved in each new decree has led to the problem of interpreting the rules of distribution each year in a way that has put more pressure on the accounts departments and works councils in the public enterprises. Delays in the distribution of profits have been caused by local processing hold-ups, as well as by the national debates. It has also eroded the credibility of the scheme and detracted from its original

purpose of motivating the labour force to increase identity with the Government's purposes.

Management's lack of support for the existing scheme is considered one of the main reasons for the limited success of the scheme. In part, this may be due to the forced and compulsory application of the scheme without pre-consultation and the feeling that they have no real control over its administration, which is mainly from outside by bureaucratic government agencies. It is evident to them and to their subordinates that their authority in this regard is minimal. Hence, instead of reinforcing management control it may be seen by them to erode it.

Furthermore, lack of knowledge and information of the scheme on the part of lower levels employees has contributed to reducing the success of the scheme. This lack of knowledge, particularly concerning its long term objectives and the operational aspects, may have resulted from a basic lack of interest shown by the lower level employees themselves - most of them too close to subsistence level to be much concerned with the more abstract features of the scheme. The complicated system used to administer the scheme leads to real difficulties in understanding it. The majority of participants are unable to relate the relationship between their efforts and their share of the profits as well as the relationship of their enterprises to the amount of profits distributed. Further attention might be paid to raising the employees overall knowledge of the scheme, but to do so might increase prevailing dissatisfactions with the nature of its centralised administration.

The problems facing anyone who attempted to amend or to redesign the system are multi-fold:

1. A solution needs to be found to the problem of the variation in employees' cash share values in the industrial public sector resulting from the company's size of investment, number of employees, technology, product market etc. An example of how to reduce these variations might be the way the Government might make tax allowances to those companies with less profit in an effort to reduce the variation between employees' shares within the same activity. Tax concessions would have to be negotiated with the Government in exchange for changes in work practices and improved business methods. These would be negotiated by teams representing both union and management interests within each company. In the case of non-profit making companies, it might also be advisable to relate the employees' share to some other basis, such as a percentage of reduction in total cost or production costs, a percentage of achieved target, or a percentage of number of working hours. This will help in reducing the employees' bad feelings when they know that their companies are losing, even for reasons beyond their control. All this implies a greater flexibility in the application of profit sharing on a plant by plant or company by company basis in a manner which would allow considerably more autonomy to local Boards to select the type of scheme that is to operate within their domain.

2. It is clear that the basic needs for the Egyptian workers have not yet been met, and the majority are in need of money to satisfy these needs. Profit sharing is one of the long term motivator techniques which is designed to satisfy both higher and lower order needs. In reality, there is misunderstanding of such a participative scheme in Egypt, and the awareness of the majority concerns mainly its material outcome. Other short-term incentives might be introduced and expanded to better satisfy the employees' basic needs for money and could be tied to productivity. In addition, wages and salaries in the public sector might be reviewed more regularly and increased according to the rate of inflation. All these steps could shift the emphasis in the goals of

profit sharing schemes away from short term expediency towards education in longer term loyalties.

3. Wages and salaries, usually, reflect job status, importance, responsibility and duties - and individual differences regarding experience, responsibility, skills and level of education. They are, however, insufficient to be used as the sole basis for calculating each employees' share in the profit. The application of such a principle has caused many problems and has reduced the effectiveness of the scheme particularly when there is no difference between those who work hard and those who do not. There was constant complaint that this basis works more in favour of top employees with higher salaries than others at the lower levels of the hierarchy.

It might be possible to use wages in combination with length of service, some measurement of efficiency, and of discipline. All can be used in a points system where each could be weighted and each employee share could be made to reflect these factors. It is true that this recommended combination of factors would not be easy to follow and is complicated compared with the present basis. It implies the effective operation of a system designed to monitor existing employees' annual performance reports and improvement to them. Nevertheless, this new basis would help to increase the efficiency of the whole plant.

4. The maximum limits for each employee's cash share might be cancelled, particularly if the basis of distribution is to change. The existence of this limit has an effect on senior employees' morale and limits the results of the scheme. Yet, government officials argue that the existence of this limit reduces the inflationary effect of the distribution and reduces the gap between the group's income. However, by taking into

consideration length of service, efficiency and discipline in addition to wages and salaries as a combined basis for calculating each employee's cash value share, the effect of wages and salaries as the sole principle for distribution will be reduced. To those who argue about the inflationary effect, it seems, however, that by increasing the productivity and efficiency of the industrial public sector companies, the suggested change will help to reduce cost and will increase the supply of goods. Companies are in any case changing to inflation accounting instead of the historical system presently used, which in itself often leads to artificial profits and results. In the view of the researcher, it would be better to lift the existing maximum limit and apply inflation accounting in order to guarantee at least the distribution of a real profit and not to risk investment capital itself.

5. With regard to the repetitive delays in the distribution each year, even after the completion of balance sheet and income and loss accounts, the problem is mainly the result of the bureaucratic administration of the scheme, as mentioned before. To reduce this delay, general stable rules concerning the calculation of cash share value are needed. In the absence of the assigned Minister the distributions might be authorised by his deputy. In addition, the widening use of computers in central accounts departments make it possible to calculate the actual value of employee shares more quickly. Lastly, the number of government agencies for auditing could be reduced. All these might help in accelerating the distribution process. However, if the scheme were to be administered locally, as previously suggested, the role of the State agencies would, like those in Yugoslavia, be reduced to that of monitoring rather than totally controlling the distribution of surpluses.

6. At the end of the fiscal year, there could be a general meeting of workers with management, similar to shareholders' meetings, to explain

the achieved results and profit and to declare the amount of the distribution. It is extremely important to the aims of the regime that stress should be given to the relation between employees' effort and the employees' share of the profit. This should not preclude more general training, which might start immediately to explain the workings of the existing scheme.

7. An extensive educational programme, particularly with respect to the participative schemes to the lower level employees, might be considered. After the application of the Open Door policy the existence of the industrial public sector has come under increasing challenge. Education might show and clarify to public sector employees - particularly shopfloor workers - all their duties and rights concerning their employment and make clear to all that employment in the public sector is not a contract with one single aim, viz to give employees rights without an acceptance of the duties and responsibilities which go with them.

8. The Government might consider the basis upon which it guarantees or backs, at least financially, those companies which make losses .

The main drawbacks of the profit sharing scheme could be overcome if most decisions concerning the distribution and administration of the scheme were dealt with within each enterprise within basic rules to be followed by all the public sector. Companies would be able to perform the distribution faster and in relation to local conditions such as liquidation problems and borrowing costs. Employees might then identify better with their firms and be better satisfied with the distribution process. It would, of course, be necessary to ensure the use of consultative procedures within the company in a manner not presently in force.

For this purpose the researcher suggests that greater attention be paid to training senior management in the principles of non-authoritarian leadership styles. Without a change in the mode and style of decision making within firms it is unlikely that the goal of participation will ever be reached through the distribution of cash.

Adopting such recommendations should help the management of the Egyptian public sector in improving the participative decision making process and in developing their organisations into co-operative social systems where the views of every member of the organisation can coalesce into a strong force aimed at achieving mutually established objectives.

Appendices

Appendix 1.1

The Methods of Collecting Field Data

Collecting field data can be classified under the following (Phillips, 1976):

A - Documentary sources

B - Observation

C - Mail questionnaire

D - Interviewing

(In the USA telephone interviewing is also of some importance)

A. Documentary sources

This method basically depends on sources giving information about the questions a survey is intended to cover from available data (Moser & Kalton, 1958). This method was not found to be useful on its own but secondary sources are referred to in presenting attitudinal results.

B. Observation

In the strict sense, observation implies the accurate watching and noting of phenomena as they occur in daily interactions between actors (Moser & Kalton, 1958). In social science, the term is often used in a much wider sense. The researcher could share in the life and activities of his sample, observing what is going on around him but supplementing this by conversation, interviews and studies of records. Under this method the information required is obtained directly, rather than through the reports of others.

Direct observation can have a number of advantages over asking for information from informants through interviews. If information is obtained by questioning informants there is always the possibility that their reports will be inaccurate; they may not know the precise facts or, for one reason or another, they may distort their answers. In many areas this is a very real danger and one that can sometimes be avoided by the use of direct observation.

Although the researcher considered this method to be a useful one especially in finding or for studying opinions and attitudes, it was found to be impossible to use in this case. Time constraints were the major obstacles but in any case the Egyptian authorities would not have allowed it. Obtaining data was only possible through a questionnaire which had been approved by the Egyptian official agencies after an explanation of each question was written on the questionnaire for the benefit of officials.

C. Mail questionnaire

The use of a mail questionnaire was the third alternative for collecting data (Raj, 1972). It has the advantage of being generally cheaper than other methods. It also avoids some of the problems associated with the use of interviews. These problems concern interviewer's errors or the respondents' errors (ie answering questions of a personal or embarrassing nature).

The main problem with a mail survey is that of getting an adequate response rate (Moser & Kalton, 1958). It is not the loss in sample numbers that is serious, but the likelihood that the non-respondents differ significantly from the respondents, so that estimates based on

the latter are biased. In addition, the method can be considered only when the questions are sufficiently simple and straight-forward to be understood with the help of the printed instructions and definitions. What is sufficiently simple and straight-forward naturally depends on the population being surveyed.

The answers to a mail questionnaire have to be accepted as final, unless re-checking or collection of the questionnaires by interviewers can be afforded. There is no opportunity to probe beyond the given answer, to clarify an ambiguous one, to overcome unwillingness to answer a particular question or to appraise the validity of what a respondent said in the light of how he said it. In short, the mail questionnaire is essentially an inflexible method.

When the respondent fills in the questionnaire, he can see all the questions before answering any one of them, and the different answers cannot therefore be treated as independent. Moreover, with a mail questionnaire the surveyor cannot be sure that the right person completes the questionnaire. Although he clearly states on the questionnaire that it is a particular person's response he wants, this will not be sufficient to ensure that he gets it.

With a mail questionnaire there is no opportunity to supplement the respondent's answers by observational data. An interviewer can describe the respondent's attitude to the survey and the way he reacted to different questions; all this is valuable background material. Beside all the above mentioned disadvantages of a mail questionnaire, one could imagine how its application would be in developing countries, particularly with illiterate and ill-educated people.

For the latter reason, which agrees with the main disadvantages of this method, the mail questionnaire was not preferred by the researcher

as an appropriate method for collecting data required.

D. Interviewing

Interviewing appeared the most appropriate procedure, even though it introduced a number of sources of error and bias (Drake, 1972).

An interview is an interaction between two people who may affect each other in various ways. Firstly, the characteristics of interviewers such as sex, age, education and social type, might influence the answers he or she obtains. Also the respondent may give an answer other than the correct one because he or she lacks the knowledge or because his or her memory plays false or because he or she misunderstands the question or because, consciously or unconsciously, he or she does not want to give the correct answer (Kahn, 1957).

The detection of response errors may be checked against data from other sources, this is called "record checks" (Farser, 1977). Another type of check is the "consistency checks" (Blalock, 1972). A common type of consistency check is to ask for the same information in two or more ways. A quality check might also be made after the first interview.

Each of the above methods has a number of strengths and weaknesses. Nevertheless, a combination of methods could be made which are thought to be appropriate to this research. The researcher found that interviewing with a guiding questionnaire was the most suitable method for collecting the necessary information and which capitalised on the advantages and minimised the problems that may arise if one method only was chosen. In addition, this method will ensure that all the questions are answered.

Appendix 1.2

The Questionnaire



THE UNIVERSITY
OF ASTON
MANAGEMENT CENTRE

EGYPTIAN PROFIT SHARING SCHEME

QUESTIONNAIRE

FOR

EMPLOYEES IN INDUSTRIAL PUBLIC SECTOR

Summer 1978

Part One - Personal and General Information:

1. Industry:
2. Name of company:
3. Location:
4. Size:
5. Profitability:
6. Job Title:
7. Type of Job:
 - Managerial ()
 - Professional ()
 - Clerical ()
 - Foreman ()
 - Shopfloor worker ()
 - Representative ()
8. Department or Section:
9. Sex: Male () Female ()
10. Marital Status: Married () Single () Others ()
11. Age:
 - Under 20 years () From 40 years to 49 years ()
 - From 20 years to 29 years () From 50 years to 59 years ()
 - " 30 " " 39 " () Over 60 years ()
12. Type of Education:
 - University education () Preparatory education ()
 - Secondary education () Primary education ()
 - Technical education () Read and write ()
 - None ()
13. Skills: Skilled () Semi skilled () Unskilled ()
14. Length of Service:
 - Less than one year () From 10 to 20 years ()
 - From 1 to 5 years () More than 20 years ()
 - From 5 to 10 years ()

15. Distance from work:

Less than one kilometre ()

One to five kilometres ()

Five to ten kilometres ()

Over ten kilometres ()

16. What kind of job do you think you will be doing in five years time (please tick one):

Same job at this company ()

Similar job in another company ()

More senior job at this company ()

More senior job at another company ()

Different job/own business ()

Others

.....
.....

17. If you had a son or daughter about to start work, would you like him or her to do your kind of work? (please tick one)

I would advise them strongly against it ()

I would be inclined to advise them against it ()

I would not mind either way ()

I would be strongly in favour of them trying it ()

18. If you had a son or daughter about to start work, would you advise them to consider your company as a possible company to work for? (please tick one)

I would advise them strongly against it ()

I would be inclined to advise them against it ()

I would not mind either way ()

I would be strongly in favour of them trying it ()

19. Are you originally from this area?

Yes () No ()

If your answer is No:

i. What region did you move from?

ii. Was it considered an urban or rural area?

Urban area ()

Rural area ()

iii. Why did you move from your region?

.....

Part Two - Employees' Commitment, Attitudes, Satisfaction towards their work and company:

20. To what extent does your job offer you the following rewards and opportunities? Please put a tick (✓) for each statement in the space nearest the answer which you believe best describes your rewards and opportunities AS THEY ARE NOW:

The rewards and opportunities I have are:

	Very Little	Little	Unsure	Much	Very Much
20.1 Security of employment	-	-	-	-	-
20.2 Good working conditions	-	-	-	-	-
20.3 Good pay	-	-	-	-	-
20.4 A feeling of working for a good employer	-	-	-	-	-
20.5 Warm friendly relations at work	-	-	-	-	-
20.6 Recognition of personal services to the company	-	-	-	-	-
20.7 Opportunities for upgrading or promotion	-	-	-	-	-
20.8 Recognition of my training or qualifications	-	-	-	-	-
20.9 Opportunities to learn new things in the trade by using my training	-	-	-	-	-
20.10 A feeling of control over my work	-	-	-	-	-
20.11 Convenient hours so that I can follow my out of work interests	-	-	-	-	-
20.12 Opportunity to develop my abilities	-	-	-	-	-
20.13 A chance to call on some one else anytime things go wrong	-	-	-	-	-

21. Now, would you go back over this list and PUT A CROSS (x) for each statement in the space nearest your answer indicating your feelings about the rewards and opportunities that OUGHT TO BE OFFERED.

22. Below are a number of aspects which may attract you to consider another job. Could you choose which would be the most attractive to you:

- 22.1 Higher pay ()
- 22.2 More convenient hours and nearer home ()
- 22.3 Promotion chances ()
- 22.4 Chances to get right kind of experience in a job or to use my qualifications ()
- 22.5 More say about the decisions which affect my life ()
- 22.6 Something else

23. Now, looking down the above list, which factor do you think was the most important in attracting you to this company in the first place?

24. What do you aim for from your job?

- | | | | |
|--|-----|----------------------|-----|
| Money | () | More responsibility | () |
| Greater social prestige | () | Develop my abilities | () |
| Aspiration for a higher standard of living | () | To keep myself busy | () |
| | | Really, I don't know | () |

25. Below are some statements connected with the idea of participation in industry. Could you say whether you agree, disagree, or are unsure about each statement. (Please tick the appropriate column for each statement).

	Strongly disagree	Disagree	Unsure	Agree	Strongly agree
25.1 Employees should all share in the cash benefits of the company	-	-	-	-	-
25.2 Management should disclose information to the shop-floor and consult them about methods of working	-	-	-	-	-
25.3 Shopfloor representatives should sit on the Board of Directors	-	-	-	-	-
25.4 All employees should own the company and run it for themselves	-	-	-	-	-

26. Do you feel that you personally have enough to say in decisions made at your place of work? (please tick one)

I have enough to say ()

I would like more say in the matter concerning my own job and working conditions ()

I would like more say in decisions concerning the management of my own department ()

I would like more say in the running of the whole establishment ()

27. Do you feel that your representative has enough to say in decisions made at your place of work? (please tick one)

He or she has enough to say ()

I would like him (her) to have more say in the matter concerning my own job and working conditions ()

I would like him (her) to have more say in decisions concerning the management of my own department ()

I would like him (her) to have more say in the running of the whole establishment ()

28. How many of your representatives' names can you remember?

Identified all four representatives ()

Identified three representatives ()

Identified two representatives ()

Identified one representative ()

Identified none of the representatives ()

29. What is your view on the degree of influence of your representatives in decision making?

Very high ()

High ()

Fair ()

Small ()

Very small ()

30. In which area from your point of view, do you think that your representatives played a principle role?

They participate in matters pertaining to the workers ()

They participate in matters pertaining to the functioning of the firm in general ()

They have no function at all ()

31. On what basis did you select your representatives?

- Personal qualifications ()
- Experience and extensive knowledge of the work of the company ()
- Good personal relationship with candidate ()
- Attraction to election promises ()
- Influence of the party or union ()

32. Would you make the same choices again for the positions of elected representatives?

- Yes ()
- No ()
- I will vote for some of them ()
- I don't know ()

33. What are the reasons behind your refusal to not vote for the same individuals again?

- They have not fulfilled their campaign promises ()
- They have joined with the managers against workers ()
- I have met other people more suitable for the job since the election ()
- They have ceased to communicate with their fellow workers as they did before election ()
- Other reason
-
-

34. Is the company's performance of any interest to you personally?

- Yes () No ()

35. Do you think that you yourself can influence the profit figure by the way you carry out your work?

- Yes () No ()

Please write the reasons for your answer:

.....

.....

36. Have you ever thought of leaving the company?

- Yes () No ()

If YES,

- a. What caused you to think of it? (please write in)
 -
- b. What stopped you going? (please write in)
 -

37. When you talk about your job, would you say that your comments are mostly favourable or unfavourable? (please tick one)

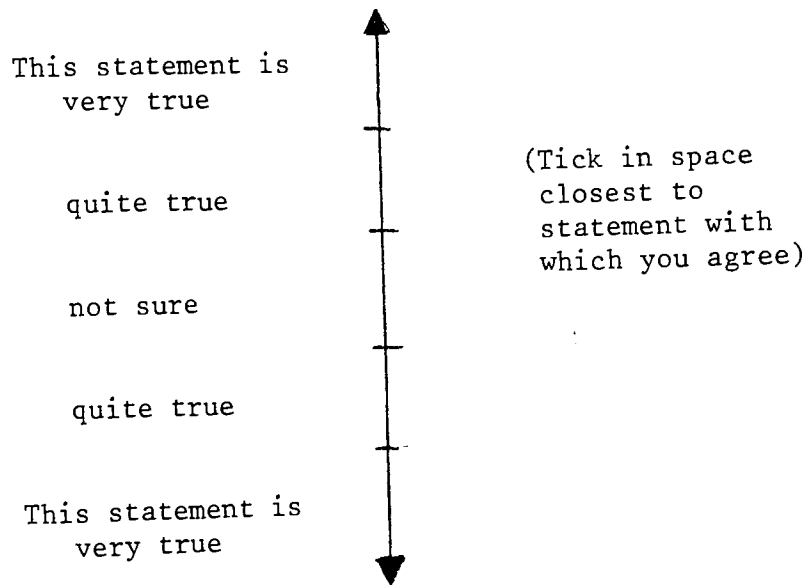
Favourable ()

Unfavourable ()

Don't know ()

38. Which one of these statements is more true to your needs?

A great deal of satisfaction in people's lives comes from the job they do. No matter how much money you get, if the job itself is not a satisfying experience, you remain discontented.



People work so they can lead a satisfying life away from work. No matter what the work is if the money is right, you won't worry.

39. How much influence do the following groups actually have on what happens in this company?

	Very Little	Little	Moderate	Much	Very Much
Directors and top management	-	-	-	-	-
Professionals	-	-	-	-	-
Clericals	-	-	-	-	-
Foremen	-	-	-	-	-
Workers	-	-	-	-	-
Workers' Representatives	-	-	-	-	-

Part Three - Training:

40. Have you taken any training before joining this company?

Yes () No ()

41. Have you taken any training course since you have been in this company?

Yes () No ()

If YES,

What were the types of training (please write in)

.....
.....
.....

Part Four - Style of Supervision Relationship:

42. How would you describe the relations between you and your supervisors?

Very bad () Good ()
Bad () Very good ()
Unsure ()

43. Do your supervisors tend to watch over you when you are doing a job?

Yes () No ()

44. Does your supervisor put pressure on you to work harder?

Yes () No ()

45. Does your supervisor tell you in detail how to do a particular job?

Yes () No ()

46. Does your supervisor ask you to stick to the rules in all cases?

Yes () No ()

47. Does your supervisor involve you in decisions which affect your work?

Yes () No ()

48. Are you in favour of this way of supervision?

Yes () No ()

What are the reasons for your answer? (please write in)

.....
.....

49. Do you feel yourself to be a part of a particular group within the company?

Yes () No ()

If YES, what are the most important things you have in common with others in the group? (tick where appropriate)

- same job together ()
- work close together ()
- same pay grade ()
- similar outside interests ()
- talks during breaks ()
- trade union membership ()
- something else

.....

Part Five - Employees' Awareness, Satisfaction and Attitudes Towards

Profit Sharing Scheme:

Section One - Awareness and Understanding

50. Is the profit sharing important to you?

I Yes () No () Don't know ()

II What are the reasons for your answer? (please tick (✓) only one)

- More money () Not incentive at all ()
- Feeling of partnership () Very little money ()
- Good incentive () To fool the workers ()
- Feeling of equality ()

III Now would you go back over this list and place them in order of importance, numbering them 1,2,3.

51. Do you feel that you personally have enough knowledge about the existing profit sharing scheme?

Yes () No () Don't know ()

52. What do you consider the aim of the company for applying profit sharing scheme?

- To increase the employees right of control of the company and to ensure the socialist ideology is applied in the company ()
- To achieve high economic results, and increase productivity ()
- To improve morale, teamwork and co-operation ()
- To reduce wasted time and materials (cutting costs) ()
- To attract and hold desirable employees (reducing labour turnover and absenteeism) ()
- To fool the workers ()
- To improve the economic security for employees ()
- To facilitate the introduction of new methods and equipment ()
- To further employees' interest in company, loyalty, feeling of partnership, sense of belonging ()

53. Now would you go back over this list and PUT A CROSS (X) for the most important aim from your point of view.

54. Do you know:

- Who agrees the company's profit level? ()
- How the profit will be distributed before the distribution is made? ()
- Who decides the employees' share? ()

55. Is there any part or aspect of the scheme that you cannot understand?

Yes () No ()

If your answer is YES, please write in

.....
.....

Section Two - Satisfaction:

56. What do you think about the profit sharing scheme? (please tick one)

- Very bad ()
- Bad ()
- Unsure ()
- Good ()
- Very good ()

57. Do you think that the scheme is working satisfactorily?

Yes ()

No ()

Don't know ()

58. If your answer is YES, how would you rate your profit sharing scheme's effectiveness with respect to the following points?

	Very effective	Moderately effective	Doubtful effect	No effect	Not viewed as a P/S objective
In improving morale, teamwork and co-operation	-	-	-	-	-
To reduce wasted time and materials (cutting costs)	-	-	-	-	-
In furthering employee interest in company, loyalty, feeling of partnership, sense of belonging	-	-	-	-	-
In attracting and holding desirable employees (reducing turnover)	-	-	-	-	-
In improving quality, pride in workmanship	-	-	-	-	-
In providing economic security for employees	-	-	-	-	-
In facilitating the introduction of new methods and equipment	-	-	-	-	-
As a means of recognising and rewarding individuals for their contribution to the growth of the company	-	-	-	-	-
In increasing productivity	-	-	-	-	-

59. If your answer is NO, what are the reasons?

There is no difference made between the good and bad employees in the scheme ()

Problems facing the scheme ()

Basis of distribution is unfair ()

- There is a lack of individual incentives ()
- It results in a decrease in co-operation between people on the shopfloor ()
- Its application is wrong ()
- Others
-

60. Do you regard the scheme as an incentive to stay with the company?

- Yes () No () Don't know ()

61. As you may know, an employees' share in profit is calculated and based on his wage and salary.

a. Do you agree with the rules of distribution?

- Yes () No () Don't know ()

b. If your answer is NO, what are the reasons for your answer? (please write in)

.....

.....

62. What are the basic rules on which the distribution of profit depends? (from your point of view)

- Age ()
- Length of service ()
- Wages and salary ()
- Efficiency ()
- Working hours of each employee ()
- Equal share ()
- Based on both salary and length of service ()

Others

.....

.....

.....

63. What is your opinion about the employees' share in the company's profit (25% from the company's profit)? (please tick one)

- Very good ()
- Good ()
- Unsure ()
- Bad ()
- Very bad ()

64. If your answer is in favour of this percentage, what is your opinion about the sub-dividends stipulated in the law? (please tick the appropriate column for each)

	Very good	Good	Unsure	Bad	Very bad
10% cash	-	-	-	-	-
5% share of social and housing services	-	-	-	-	-
10% share of central social services	-	-	-	-	-

Please write the reasons for your answer

.....

65. According to the law, your share in the company's profit is limited to LE 75.

a. Do you agree?

Yes () No ()

b. If your answer is NO, what are the reasons?

There will be no difference between the good and bad employees ()

Less than expected ()

Decrease in the morale of good substantial employees ()

Others

.....

66. From your point of view should the distribution of profit be:

i. Once per year

- a. at the end of the fiscal year ()
- b. before the holidays ()
- c. before school starts ()

- ii. Twice per year ()
- iii. More than twice a year ()

67. Do you know that employees in some other companies always get maximum share in profit, which consider more than their actual efforts?

Yes () No () Don't know ()

There are no more specific questions that we would like to ask. If you would like to express any opinion about anything concerning profit sharing schemes, please feel free to do so in the space below.

.....
.....
.....

Thank you very much for your co-operation.

The Researcher

/ /1978

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